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ADMINISTRATION'S FISCAL YEAR 1983 LEGISLATIVE PROPOSALS FOR UNEMPLOYMENT COMPENSATION AND PUBLIC ASSISTANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

MARCH 25; APRIL 21 AND 22, 1982

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ADMINISTRATION'S FISCAL YEAR 1983 LEGISLATIVE PROPOSALS FOR UNEMPLOYMENT COMPENSATION AND PUBLIC ASSISTANCE

THURSDAY, MARCH 25, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE
AND UNEMPLOYMENT COMPENSATION,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

[Press release No. 7 of Monday, March 15, 1982]

HON. HAROLD E. FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, ANNOUNCES HEARINGS ON THE ADMINISTRATION'S FISCAL YEAR 1983 LEGISLATIVE PROPOSALS AND OTHER PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION BILLS PENDING BEFORE THE SUBCOMMITTEE

The Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, today announced public hearings on the Administration's fiscal year 1983 legislative proposals and other public assistance and unemployment compensation bills affecting the fiscal year 1983 budget that are pending before the Subcommittee. The hearings will begin on Thursday, March 25, 1982, with the Administration witnesses from the Department of Health and Human Services and the Department of Labor. Hearing dates for public witness and Members of Congress will be scheduled as soon as possible after the Administration has submitted to Congress legislation containing the fiscal year 1983 amendments that are under the Subcommittee's jurisdiction. This includes proposed amendments and changes in funding levels affecting the following programs: Aid to Families with Dependent Children (AFDC); Supplemental Security Income (SSI); Title XX Social Services; Child Welfare Services, Adoption Assistance and Foster Care; Low-Income Energy Assistance; and Unemployment Compensation.

The specific bills that will be addressed in these hearings, including the bills containing the Administration's fiscal year 1983 proposals (once they have been submitted and introduced), will be announced in a later press release.

At the hearing on March 25, in addition to addressing the Administration's fiscal year 1983 proposals and the other bills included in these hearings, Administration witnesses will be asked to provide what information they currently have on the implementation and impact of the public assistance, social services, low-income energy assistance and unemployment compensation amendments enacted last year in the Omnibus Budget Reconciliation Act of 1981. The hearing on March 25 will be held in room 2203 Rayburn House Office Building, beginning at 10:00 a.m.

[Press release No. 8 of Monday, March 22, 1982]

HON. HAROLD E. FORD (D., TENN.), CHAIRMAN OF THE SUBCOMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, ANNOUNCES THE PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION BILLS—IN ADDITION TO THE ADMINISTRATION'S FISCAL YEAR 1983 PROPOSALS—THAT ARE TO BE ADDRESSED IN THE PUBLIC HEARINGS THAT BEGIN ON MARCH 25, 1982

The Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives today announced the public assistance and unemployment compensation legislation that will be addressed in the upcoming Subcommittee hearing. These bills are summarized at the end of this press release. In addition to the bills summarized below, the hearings will include the Administration's fiscal year 1983 proposals under the jurisdiction of the Subcommittee, including proposed amendments and changes in funding levels affecting the Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Title XX Social Services, Child Welfare Services/Adoption Assistance/Foster Care, Low-Income Energy Assistance, and Unemployment Compensation programs. The bills containing the Administration's fiscal year 1983 proposals will be announced as soon as they have been submitted to Congress and introduced.

As indicated in a previous press release, dated March 15, 1982, the Subcommittee hearings will begin on Thursday, March 25, 1982, with Administration witnesses. The March 25 hearing will be held in room B-318 of the Rayburn House Office Building (rather than 2203 Rayburn House Office Building as indicated in the March 15 press release) and will begin at 10:00 a.m.

Additional hearing dates at which the Subcommittee will receive testimony from State and local government officials, public witnesses and Members of Congress will be announced in a later press release. The purpose of this press release is to provide those who may wish to testify with advance notice of the hearings and the bills to be addressed so they can begin preparing testimony.

Details for submission of requests to be heard

Individuals and organizations interested in presenting oral testimony at the hearing should submit their request to be heard by telephone to Harriett Lawler, to be followed by a formal written request to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515, telephone (202) 225-3627. The initial telephone request must be received by the Committee no later than the close of business, April 12, 1982. Notification to those scheduled to appear will be made by telephone as soon as possible after additional hearing dates have been announced.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentation will be strictly limited, with the understanding that a more detailed statement can be submitted for the Subcommittee's review and for inclusion in the printed record of the hearings. This will afford more time for interrogation of the witnesses by the members of the Subcommittee. If it becomes necessary, the staff will group the witnesses into panels to expedite the hearings and will establish strict time limitations for each panelist.

The following is an outline of the procedure to be followed by organizations and individuals who may either want to appear and testify during this hearing or file a written statement for the printed record of the proceedings. All requests to be heard should contain the following information:

1. The name of the witness, title, address, firm affiliation and/or organization that the witness represents (as well as a telephone number where the witness or his designate representative may be reached.

2. If appearing in an individual capacity, a list of any clients at whose request or in whose employ the witness appears.

3. A topical outline or summary of comments and recommendations.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record. In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 50 copies of their prepared statement to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

Written statements in lieu of personal appearance

For those who wish to file a written statement for the record of the hearing, five copies are required and may be submitted to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Committee office before the hearing begins.

BILLS—IN ADDITION TO THE ADMINISTRATION FISCAL YEAR 1983 PROPOSALS—TO BE ADDRESSED IN SUBCOMMITTEE HEARINGS THAT BEGIN ON MARCH 25, 1982

AFDC, title XX and low-income energy assistance

H.R. 5226 (Mr. Gradison): Reimburses States, at the State AFDC matching rate, for the costs of providing private health insurance coverage for individuals who lose eligibility for AFDC benefits and Medicaid because of earnings.

H.R. 5791 (Mr. Ford): Increases Title XX Social Services funds by $200 million per year for fiscal years 1983, 1984 and 1985. Increases Low-Income Energy Assistance Funds by $100 million per year for fiscal years 1983–1985. Increases the amount of earned income that is disregarded in determining AFDC eligibility and benefit amounts.

(H.R. 5871 (Mr. Matsui): Requires that Federal AFDC, Medicaid and Title XX Social Services matching funds be available to States at the time the State issues checks or warrants for expenditures under these programs.

Supplemental security income (SSI)

H.R. 5509 (Mr. Brodhead): Limits the rate at which overpayments of SSI benefits may be recovered through adjustments in future benefits, where the overpayments involved were not the fault of the recipients.

H.R. 5911 (Mr. Stark): Excludes burial plots and burial insurance policies in determining an SSI applicant's resources.

Unemployment compensation

H.R. 5284 (Mr. Eckhart): Repeals the following amendments to the Federal/State Extended Benefits program enacted in the Omnibus Budget Reconciliation Act of 1981: (1) elimination of the "national trigger"; (2) exclusion of extended benefit claimants in determining the insured unemployment rate under the extended benefit program; and (3) increase in the required State insured unemployment rate for purposes of triggering on extended benefits, effective on September 25, 1982.

H.R. 5251 (Mr. Guarini): Repeals the provision enacted in the Omnibus Budget Reconciliation Act of 1981 that eliminated the "national trigger" in the Federal/State Extended Benefit program.

H.R. 5452 (Mr. Minish): Identical to H.R. 5284.

H.R. 5904 (Mrs. Schroeder): Encourages States to modify their unemployment programs in order to allow the payment of partial unemployment benefits to workers whose work week is reduced pursuant to an employer plan under which such reductions are made in lieu of temporary layoffs.

[Press release No. 9 of Tuesday, April 6, 1982]

HON. HAROLD E. FORD (D., TENN.), CHAIRMAN OF THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, ANNOUNCES ADDITIONAL DATES FOR PUBLIC HEARINGS ON THE ADMINISTRATION'S FISCAL YEAR 1983 PROPOSALS AND OTHER PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION BILLS PENDING BEFORE THE SUBCOMMITTEE

The Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, today announced additional dates for the public hearings that were announced in earlier press releases dated March 15 and March 22, 1982. The Subcommittee hearings, which began with Administration witnesses on March 25, will continue on Wednesday, April 21, Thursday, April 22, and, if necessary, on Friday, April 23, 1982. They will be held in room B-318 Rayburn House Office Building and will begin at 10:00 a.m. each day.

The hearing will address the Administration's fiscal year 1983 proposed amendments and changes in funding levels affecting the Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Title XX Social Services, Child Welfare Services/Adoption Assistance/Foster Care, Low-Income Energy As-

sistance and Unemployment Compensation programs. Testimony is also invited on the legislation summarized at the end of this press release. This press release contains one unemployment compensation bill, H.R. 6085, introduced by Mr. Ford, that was not included in the list of bills summarized in the March 22, press release. In addition, witnesses may also comment on the impact of fiscal year 1982 budget reductions and program changes in programs within 1982 budget reductions and program changes in programs within the Subcommittee's jurisdiction.

Details for submisson of requests to be heard

Individuals and organization interested in presenting oral testimony at the hearing should submit their request to be heard by telephone to Harriett Lawler, to be followed by a formal written request to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515, telephone (202) 225-3627. As stated in the earlier press release dated March 22, 1982, the initial telephone request must be received by the Committee no later than the close of business, April 12, 1982. Notification to those scheduled to appear will be made by telephone as soon as possible.

It is urged that persons and organizations having a common position make every effort to designate one spokesperson to represent them in order for the Subcommittee to hear as many points of view as possible. Time for oral presentation will be strictly limited, with the understanding that a more detailed statement can be submitted for the Subcommittee's review and for inclusion in the printed record of the hearings. This will afford more time for interrogation of the witnesses by the members of the Subcomnittee. If it becomes necessary, the staff will group the witnesses into panels to expedite the hearings and will establish strict time limitations for each panelist.

The following is an outline of the procedure to be followed by organizations and indviduals who may either want to appear and testify during this hearing or file a written statement for the printed record of the proceedings. All requests to be heard should contain the following information:

1. The name of the witness, title, address, firm affiliation and/or organization that the witness represents (as well as a telephone number where the witness or his designated representative may be reached.
2. If appearing in an individual capacity, a list of any clients at whose request or in whose employ the witness appears.
3. A topical outline or summary of comments and recommendations.

The above information should also be incorporated in the prepared statements to be presented in person as well as those filed for the printed record. In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 50 copies of their prepared statement to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance. Failure to comply with this requirement may result in the witness being denied the opportunity to testify in person.

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BILLS—IN ADDITION TO THE ADMINISTRATION FISCAL YEAR 1983 PROPOSALS—TO BE ADDRESSED IN SUBCOMMITTEE HEARINGS THAT BEGIN ON MARCH 25, 1982

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H.R. 5871 (Mr. Matsui): Requires that Federal AFDC, Medicaid and Title XX Social Services matching funds be available to States at the time the State issues checks or warrants for expenditures under these programs.

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H.R. 5911 (Mr. Stark): Excludes burial plots and burial insurance policies in determining an SSI applicant's resources.

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H.R. 5452 (Mr. Minish): Identical to H.R. 5284

H.R. 5904 (Mrs. Schroeder): Encourages States to modify their unemployment programs in order to allow the payment of partial unemployment benefits to workers whose work week is reduced pursuant to an employer plan under which such reductions are made in lieu of temporary layoffs.

H.R. 6085 (Mr. Ford): Provides up to a maximum of 13 additional weeks of unemployment compensation to individuals who exhaust their regular State and Federal/State extended benefits.

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

Today the Subcommittee on Public Assistance and Unemployment Compensation begins hearings on the administration's fiscal 1983 proposals for programs within the jurisdiction of this subcommittee. In addition to the administration proposals, the subcommittee will be examining a number of bills affecting public assistance and unemployment compensation programs.

The committee today will hear from the Under Secretary of Labor and the Under Secretary of the Department of Health and Human Services.

One year ago, the Secretary of Health and Human Services appeared before the Ways and Means Committee to testify on the administration's fiscal year 1982 budget proposals. Concern was expressed at that time that those proposals were being made with limited regard for the effect they would have on people dependent upon public assistance and social service programs.

Many of those proposals seemed to be made with limited concern for fairness or efficiency. The primary motivation appeared to be: to help balance a budget that was about to absorb a proposed huge tax cut subsequently enacted in the last Congress; but because of the huge increase in military spending and the huge tax cuts, the administration felt that there was a need to severely cut social programs throughout this country.

We were assured by the Secretary that this was not the case. We were told that the cuts in aid to families with dependent children, title XX social services, supplemental security income, and the low-income energy assistance would not harm the truly needy in this country. The Secretary also told us that the cuts were necessary only to assure that the people who were capable of supporting themselves would not receive assistance from these programs.

The Congress passed the administration's budget reductions last year, and for the public assistance programs within our jurisdiction

the cuts amounted to over $1.7 billion in fiscal year 1982, and over $1.6 billion in fiscal 1983. When the unemployment compensation changes are added, the cuts totaled some $4.2 billion in 1982 and $5.9 billion in 1983.

The administration is recommending additional cuts in public assistance, in social service programs of $2.9 billion in fiscal year 1983.

Any assessment of these recommendations must begin with examination of what has already been done. This subcommittee and the full Committee on Ways and Means held a number of hearings around this country on the impact of last year's budget cuts. We heard from local administrators of title XX agencies who were having to cut back or to eliminate needed services for the elderly, workers who had been laid off and whose unemployment benefits have already been exhausted.

Governors and other State and local officials told us their governments were simply incapable of providing the services that the Federal Government is trying to abandon. Many working AFDC mothers have discovered that it makes more economic sense for them to quit work and depend entirely on welfare because of the new earnings limitation changes in the AFDC program.

The subcommittee today felt that it was our responsibility to initiate these hearings promptly to hear from the administration first, and at some later date decide how this subcommittee will move to mark up legislation with respect to the proposed fiscal 1983 budget proposals.

The Chair would like to recognize our first witness today who is the Under Secretary of Labor, Mr. Malcolm R. Lovell, Jr. Prior to the beginning of his testimony, I would like to yield to my colleague on the minority side, Mr. Henson Moore of Louisiana, for any opening remarks.

Mr. MOORE. I thank the distinguished chairman.

I do not have any opening remarks. I want to thank the Chair for assigning these hearings at this early date and moving these on a fast track. I appreciate that.

I simply would hope that both Under Secretaries testifying today before this subcommittee will address whether we are cutting programs for people who really need them and cutting people off programs who really need help, or whether we must admit that we cannot afford the programs at their existing costs, if there are people who are not qualified in them, and that we are trying to move people who do not need help off these programs, and into paying jobs.

I hope that both witnesses today will address what is proposed in 1983, but as the chairman suggests, also take a look at what has been done for fiscal year 1982. I firmly believe the American people support the elimination of waste, fraud, and abuse. I do not think they support the elimination of people who badly need help from programs, and I hope that the witnesses can determine whether we are eliminating people who need help, or if we are in fact trimming back programs to an affordable level to help people who really need help.

There seems to be great confusion in the press and great confusion in testimony I have heard thus far in what we did in 1982.

I thank the Chair.

Chairman FORD. Mr. Secretary, the committee would be more than happy to make your full statement a part of the record, if you would like to summarize it. You may proceed.

STATEMENT OF HON. MALCOLM R. LOVELL, JR., UNDER SECRETARY, DEPARTMENT OF LABOR, ACCOMPANIED BY JAMES VAN ERDEN, CHIEF ACTUARY FOR UNEMPLOYMENT INSURANCE, AND ROBERT DESLONGCHAMPS, ACTING DEPUTY ADMINISTRATOR FOR UNEMPLOYMENT INSURANCE

Mr. LOVELL. Thank you. Thank you very much, Mr. Chairman.

I have with me Robert Deslongchamps, who is the acting deputy administrator of the Unemployment Insurance Service, and James Van Erden, who is our supervisory actuary of the Unemployment Insurance Service.

I am pleased to be here before you today to discuss additional recommended reforms in the unemployment compensation component of the President's economic recovery program. When I complete my remarks, I would like to address myself to both your statement and Mr. Moore's comments on the overall effect of some of these programs.

Before describing these proposals, I would like to comment on proposals pending before the subcommittee that would retreat from the improvements to the unemployment compensation program made by the Omnibus Budget Reconciliation Act of 1981.

Unfortunately, unemployment is high. However, I believe that the basic program now in place is sufficient to address the recession-induced joblessness we are now experiencing. We are estimating that a total of 11.5 million individuals draw a total of $23.3 billion in benefits during the current fiscal year. In fiscal year 1983, 10.6 million individuals will be paid $21 billion in benefits, at an average weekly benefit amount of $113.

In fiscal year 1982, all but a few States will trigger on 13 weeks of extended benefits. In fiscal 1983, we estimate that 22 States will be paying extended benefits. Given the path of the recovery that we anticipate and the present experience of claimants exhausting regular benefits, we believe that a program of benefits beyond 39 weeks is unnecessary.

Two of the amendments to the extended benefit program enacted last year are currently in place: Deletion of the national trigger and exclusion of emergency benefit claimants from the national trigger computation.

To date, the national trigger would not have triggered on had it been in place. Only one State, Michigan, triggered off and stopped making EB payments because of the exclusion of claimants from the trigger computation. Several States, about eight, triggered on emergency benefits at least 1 week earlier than they would have under the old computation. Michigan triggered on again for those weeks beginning February 28.

Mr. Chairman, I would like to address two proposals for this year, both of which have been transmitted to the Congress. One, unemployment compensation for exservice members, the UCX program. The proposed amendment would limit eligibility for UCX to

those individuals separated only for: (1) disability incurred while in the service, and (2), demobilization, or (3), reduction in force. Those individuals voluntarily discharged under honorable conditions but whom the military does not wish to retain would not be eligible for unemployment compensation.

Our experience under the revised UCX program shows for the calendar quarter ending December 31, 1981, nearly 77-percent of the claimants who filed new claims failed to receive benefits either because they were denied benefits under the revised UCX requirements or because they failed to follow through after having filed the initial claim. That 77-percent rate compares to a rate of 19 percent of UCX claimants who did not receive benefits for the same period in 1980, before enactment of the Omnibus Budget Reconciliation Act of 1981.

The second change is to round unemployment compensation weekly benefit amounts to the lower whole dollar amounts. As part of the general reform of Federal entitlement programs, this legislation would amend the Federal Unemployment Tax Act to require that State unemployment compensation laws provide in any case where the individual's weekly benefit is not a full dollar the rounding down of that amount to the closest whole dollar.

I would be pleased to entertain any questions. Perhaps if I could just go on and address myself to this basic question which both of you raise, I think you have to take a look at what we have done as a nation over the last 15 years or so. BLS made a study recently at my request to determine what our entitlement programs, our total entitlement programs, were in 1968 in constant dollars, 1980 dollars, and compare them with the 1983 budget in constant dollars.

Now, if you will remember, 1968 was the last year of the Great Society programs of President Johnson. It was not a period where we were under great constraints in terms of our efforts on behalf of our poorer citizens. That year, in 1980 dollars, we spent $115 billion. Now, the 1983 budget calls for the expenditure of $292 billion.

Now, that is not all in terms of more generous benefits. We have had a population increase, and there are other factors that are involved, but that is a substantial increase just the same. The real question is, At what level can we maintain the terms of these entitlement programs, which now are over one-half of our national budget? You know, in 1983 dollars they come to about $375 billion. At what point can we continue, even though we may as a society want to pay out these moneys to people, this kind of expenditure?

I think what Congress has been trying to do is to get ahold of this problem and to try to make reductions in areas that have a minimum effect on people. Obviously, some of them do have an effect. Some of them have adverse effect. It is a tough job, and you all are right at the heart of it on the Ways and Means Committee. You are certainly more aware than I am of the difficulties involved, but it is just not right to say that the proposals being made are without concern, without compassion, or without heart, when they are 2½ times higher in real dollars than in 1968.

These are tough things to do, and I think as a society we are going to have to try to wrestle with these problems so that we are able to deal in a rational way with both the human values and the real need for our society to reduce Federal spending in these areas.

[The prepared statement follows:]

STATEMENT OF MALCOLM R. LOVELL, JR., UNDER SECRETARY OF LABOR

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you today to discuss additional recommended reforms in the unemployment compensation component of the President's Economic Recovery Program. The two proposals I will discuss today would continue the reforms initiated by the Administration last year and approved by the Congress as part of the Omnibus Budget Reconciliation Act of 1981. We will also comment on our experience, to date, under the Omnibus Budget Reconciliation Act of 1981.

The basic purpose of the 1981 amendments was two-fold: (1) to improve the equity between claimants receiving various forms of unemployment compensation, and (2) to make economies in the unemployment compensation program while continuing to ensure that benefits are directed to those for whom the law was intended.

As we engage in a dialogue on these important unemployment compensation issues, it is important to keep in mind the four policy fundamentals of the Administration's Economic Recovery Plan:

(1) Lower tax rates to stimulate saving, investment, work incentives, and productivity.

(2) Control the growth of Federal spending, borrowing, and credit.

(3) Decrease excessive and unnecessary Federal regulations.

(4) Reduce inflation through a steady and moderate growth in the money supply.

Cooperation with Congress and with the independent Federal Reserve Board is essential to the long-term implementation of these fundamentals.

Within these broad policies it is appropriate to reemphasize several themes that guide the Administration's approach to reforming entitlement programs:

Remove work disincentives and introduce incentives to work where possible.

Eliminate inequitable treatment of people in similar circumstances.

Reduce unintended and excessive benefits to recipients.

Target benefits to those most in need.

Improve efficient and effective management of program operations.

It is within this policy context that we have proposed the additional reforms affecting unemployment compensation.

Before describing these proposals, I would like to comment on proposals pending before this Subcommittee that would retreat from the improvements to the unemployment compensation program made by the Omnibus Budget Reconciliation Act of 1981 through (1) the reinstitution of the national trigger, (2) a delay in the effective date of the new State triggers, (3) a repeal of the new trigger rates altogether, (4) a reversal of last year's reforms for unemployment compensation for ex-servicemembers, (5) a suspension of loan repayment and interest requirements for States having a high unemployment rate and (6) adoption of a new program of extended benefits beyond 39 weeks. As Secretary Donovan indicated in testimony before the full Committee on February 24, 1982, we do not need nor could we support any reversal or delay of the fundamental changes that were enacted in the Omnibus Budget Reconciliation Act of 1981. Unfortunately, unemployment is high. The concern exemplified by these proposals is understandable. However, I believe the basic program now in place is sufficient to address the recession-induced joblessness we are experiencing. I think it is important to note that the pending proposals would have an adverse budgetary impact. For example, delaying by one year the effective date of the new State triggers enacted by Congress last year would add $1.3 billion to the fiscal year 1983 deficit.

Please keep in mind that we are estimating that a total of 11.5 million individuals will draw a total of $23.3 billion in benefits during the current fiscal year. In fiscal year 1983, 10.6 million individuals will be paid $21.0 billion in benefits, at an average weekly benefit amount of $113.

In fiscal year 1982 all but a few States will trigger on 13 weeks of extended benefits increasing benefit duration to 39 weeks in those States. In fiscal year 1983 we estimate that 22 States will be paying extended benefits. Given the path of the recovery that we anticipate and the present experience with claimants exhausting regular benefits, we believe that a program of benefits beyond 39 weeks is unnecessary.

Our experience to date with the changes made in the Omnibus Budget Reconciliation Act of 1981 is encouraging. Two of the amendments to the extended benefit (EB) program enacted last year are currently in place: deletion of the national trigger and exclusion of EB claimants from the national trigger computation. To date, the national trigger would not have triggered on had it been in place. Only one

State, Michigan, triggered off and stopped making EB payments because of the exclusion of EB claimants from the trigger computation and several States triggered on EB at least one week earlier than they would have under the old computation. Michigan triggered on again for the week beginning February 28.

Now, Mr. Chairman, I would like to address two proposals for this year, both of which have been transmitted to the Congress.

1. *Unemployment Compensation for Ex-Servicemembers (UCX).*—One of the reforms included under the Omnibus Budget Reconciliation Act of 1981 was to revise the eligibility requirements for UCX, effective for separations from the service. Beginning July 1, 1981, to deny benefits to individuals who separated from the military under honorable conditions and who had an opportunity to reenlist. While not so intended, this change resulted in the continuance of eligibility for individuals who were discharged under honorable conditions and whom the military does not wish to retain, such as those with a record of disciplinary infractions or who failed to maintain requisite skill proficiency.

The proposed amendment would limit eligibility for UCX to those individuals separated only for (1) disability incurred while in the service, (2) demobilization, or (3) reduction in force. Those individuals involuntarily discharged under honorable conditions but whom the military does not wish to retain would not be eligible for unemployment compensation. The legislation, if effective for those discharged on or after July 1, 1982, would reduce outlays by $5 million in fiscal year 1982, and by $30 million in fiscal year 1983.

Our experience under the revised UCX program shows a substantial success in meeting the objections of eliminating benefits for those who voluntarily quit the service. For example, for the calendar quarter ending December 31, 1981, nearly 77 percent of claimants who filed new claims failed to receive benefits either because they were denied benefits under the revised UCX requirements or because they failed to follow through after having filed the initial claim. That 77 percent rate compares to a rate of 19 percent of UCX claimants who did not receive benefits for the same period in fiscal year 1980 before enactment of the Omnibus Budget Reconciliation Act of 1981. Total benefits paid to UCX claimants were reduced from $73.8 million for the calendar quarter ending December 31, 1980, to $33.1 million for the calendar quarter ending December 31, 1981. The number of new claims filed has also declined. Nearly 24,000 claims were filed in the 3-month period ending December 31, 1981, compared to more than 49,000 in the same period in 1980.

2. *Round Unemployment Compensation Weekly Benefit Amounts to the Lower Whole Dollar Amount.*—As part of the general reform of Federal entitlement programs, this legislation would amend the Federal Unemployment Tax Act to require that State unemployment compensation laws provide, with respect to an individual's weekly benefit amount in any case where the individual's weekly benefit amount is not a full dollar, the rounding down of that amount to the closest whole dollar amount.

The proposal would apply to individuals whose benefit years began after June 25, 1983. It is not intended that the change impact on current unemployment compensation claimants. Any loss to an individual claimant in the future will be minimal since the average weekly benefit amount continues to rise from year to year. Savings realized by this proposal would impact positively upon the unified Federal budget and should reduce costs by $6 million for fiscal year 1983.

Thank you Mr. Chairman, this completes my formal statement. We would be pleased to entertain any questions you or the Subcommittee may have.

Chairman FORD. Mr. Secretary, do you foresee the administration giving any support for some supplemental extended benefits for the hard core unemployed? Do you foresee the administration also taking a closer look at training and relocation funds tied into an extension of unemployment compensation benefits any time in the near future?

Mr. LOVELL. Well, let me address these.

Chairman FORD. Because I am sure that the administration did not anticipate that the unemployment problem would be so severe. But, after all, we were promised by the President that this economic recovery package would revive the economy and reduce the unemployment rate. Today, the program doesn't appear to be working.

Mr. LOVELL. I do not agree with that statement, Mr. Chairman.

Chairman FORD. Well, most people in this country now agree it is noticeable and obvious.

Mr. LOVELL. We do expect an upturn beginning in the second half of this year. Obviously, if we do not have substantial improvement over the next six or nine months, there will be additional questions raised. I am confident that we will. But let me address the unemployment situation.

I think you are correct. We did not anticipate it being as high as it is. I do think, though, that the present extended benefit program is going to be adequate to meet our needs. Let me describe why I think this is true. The 39 weeks of benefits that are available to people in the States that are triggered on are adequate because the vast majority of people are going to find jobs within that 39-week period. We are watching this closely to see what happens and how many people exhaust benefits, and so forth, although we do not have as good data in that area as I would like.

Chairman FORD. The vast majority of the people are going to do what?

Mr. LOVELL. Are going to find new jobs within that 39-week period. So we do not think that it will be necessary to extend it beyond that, because people who have no intention of going back to work anyway would just continue to receive benefits over a longer period of time.

Mathematica made an important study in December of last year. I believe it covered two States, Pennsylvania and Missouri. I am not suggesting that the results would be true in all months and in all States, I am simply reporting on this particular study. It showed that of all those that exhausted their regular UI benefits and extended benefits, that about one-third, or about 34.7 percent, dropped out of the labor market after that, and we do not know why they dropped out. They may have dropped out because they are discouraged, or they may have dropped out because they do not plan to go back in, but 61 percent of the remainder found jobs within 4 weeks after the exhaustion of those benefits, and another 19 percent found jobs between 4 to 8 weeks after exhaustion of the benefits.

So, that does suggest to us that the vast majority of people who are out of work during the period do go back within that 39-week protection period. However, we are watching it, and if we find that this is substantially not so, we will obviously have to revaluate. We want to watch it carefully, but we see no evidence to suggest that 39 weeks is not adequate at this time.

The second question you raised is in terms of the displaced worker, and what can we do to help the movement of people who are permanently displaced from the automobile industry, the steel industry, and some of the electronic industries, the rubber industry, and some of the other industries that for a variety of reasons may not regain to their old employment levels.

We are putting $25 million this year into some programs to try to find out what works best in this area. I do not know if you are familiar with our Downriver experiment in Detroit, with the steel mill that is closing, but some of the efforts that have been made in this regard have been very encouraging to us.

I was interested to hear that the Ford Motor Co. in its recent negotiations with the UAW has decided to put 5 cents an hour aside for rehabilitation of Ford workers, and I think this direction is a very encouraging one, a recognition on the part of the company and the union of the nature of this problem.

Under the new Employment and Training Act the President will be introducing soon, both in the House and in the Senate, we permit 10 percent of $1.8 billion to be used—it is 5 percent if it is matched, so it is a total of $1.8 billion—for displaced worker efforts.

But we are looking at other things, too. We are very much concerned about the problem. It is a problem that is not going to end at the end of this recession. I think it is going to continue with us, even in the more prosperous times that we see in the eighties. We see a fairly tight labor market in the eighties, but we see the need for mobility between industries, not necessarily between locations, but certainly between industries as we move to new techniques and new industries demonstrate their viability in worldwide competition. So it is a real problem, and we do plan to have money, both now and in the years ahead, to deal with it, but we are not satisfied that the techniques we are currently aware of are going to be adequate. We are looking at new things.

Chairman FORD. So you are saying that those who are unemployed today will have to continue to wait for 6 to 9 months until we see what the economy is going to do?

Mr. LOVELL. No, I do not think so. As you know, unemployment—I mean, you say there are 9½ million or 9 million unemployed——

Chairman FORD. How many are there?

Mr. LOVELL. It is about nine million, nine and a half million. The same people are not unemployed the whole time. You have the average unemployment, people covered by unemployment compensation—about 13 to 15 weeks is the average length of unemployment. Obviously, there are some longer and some shorter, but that is the average, about 13 weeks. So we are saying that the present system of extended benefits and the normal unemployment benefits that are now in place, will carry over the vast majority of people until conditions improve.

Chairman FORD. Tell me a little more about the 5.1 million people who are underemployed. I saw the latest figures from the Labor Department. They are not counted in that 9.5 million people that you made mention of a minute ago. Tell me a little about those people. Are they working 4 days a week, 3 days a week?

Mr. LOVELL. You are familiar, I think, with the Levitan Commission that made a study of the way we report unemployment compensation. It reported about two years ago, or a year and a half ago. A number of concerns were expressed, both that our figures underreported and overreported, but the Commission felt that the figures coming out of the national reporting system really are pretty fair, and it did not recommend that any change take place.

As you know, we report as unemployed an individual at school, in high school, who is looking for a job. That shows as one person unemployed. And that individual's needs obviously are vastly different from an individual that heads a family. On the other hand, we do recognize that people get discouraged and drop out of the

labor market, and there are people who are not employed at their highest level, people who are not employed as long as they want, and are taking part-time work and would like full-time work.

Chairman FORD. So those who are discouraged about the labor market and drop out, they are not counted in that 9.5 million?

Mr. LOVELL. No, they are not, but as I say, others are, such as your student at school who is looking for a part-time job. So, the 9-million figure is not that farfetched. It is a fairly accurate figure, I think, in terms of the people that are indeed seeking work. As an expression of national concern, I think it is an accurate figure. Now, it is a high figure. I would not want to suggest that it is not.

Chairman FORD. Will things look better at the end of March, do you think?

Mr. LOVELL. I would not predict that they would look better at the end of March. We are almost there now. But I do think certainly by the end of the year.

Chairman FORD. Do you think that 8.8 percent will decline, or will it go up at the end of March from all of the indicators at this point?

Mr. LOVELL. Mr. Chairman, I long ago put my crystal ball away, but I think it is entirely possible that the rate will go up further before it starts coming down, how much further I don't know. The general feeling, I think, is that 9 or 9.1 may be the top.

Mr. VAN ERDEN. Mr. Chairman, I think when you are talking about the unemployment insurance program and those individuals drawing benefits, it is important to note that the last 2 or 3 months, the unemployment rate has remained fairly constant. The total rate has jumped up and down, but our insured rate has been running around——

Mr. LOVELL. But in terms of the total rate, actually, as you know, it has gone from 8.8 to 8.5 to 8.8. So, in a sense it has been holding fairly constant, but I would not be surprised——

Chairman FORD. Do you think it will reach 10 percent?

Mr. LOVELL. I do not think so.

Chairman FORD. In Tennessee we have unemployment at the rate of 12.1 percent, probably the highest we have ever witnessed in our State. Many of my colleagues are very much concerned about the unemployment rates in their States and throughout this country.

As you may know, many Members have already introduced legislation addressing this particular issue. We thought that the administration would present some recommendations today regarding what we should do as a subcommittee on this matter.

In the subcommittee's "March 15th Budget Report" we did not make any recommendations to restore some funds in the unemployment compensation area that were cut in the Budget Reconciliation Act of 1981. However, we do feel that we must do something at this time to respond to the critical unemployment problem in the country. How we will tackle that problem, I do not know.

I am not sure that I am getting any help or answers from the Department of Labor today. We have 8.8 percent of the people who are unemployed that we can count. Some have indicated that those figures are a lot higher than 8.8 percent, which your office, the De-

partment has released and we would just like to know what can we say to those who are searching and looking for jobs everyday?

I know that the problem might not be that we can appropriate the unemployment compensation funds that would be needed for extended benefits beyond the 39 weeks, but I think that we have to at some point, work together. Our President told us, in his state of the Union Message, that there were some 29 pages of want ads for jobs in one of the national newspapers and that was clear to me that if all of those jobs were out there maybe the administration should take the leadership at this point.

Let us talk about some training moneys, and relocation funds directed to help the unemployed find those jobs and make sure that we relocate the people who wish to respond to those want ads in the newspapers.

Mr. LOVELL. Well, I think clearly that I share with you the concern of the unemployment rate in general. I share with you the concern for the very, very high unemployment rate in Tennessee, and Michigan, and Ohio, and Indiana, and a number of midwest States, Washington, Oregon.

Chairman FORD. Has Michigan triggered back on extended benefits yet?

Mr. LOVELL. Yes.

Chairman FORD. Gee, wasn't that some blow. How could the administration make such a blunder that would face a State like Michigan to trigger off EB for a period of 13 weeks. And there was no recourse whatsoever for the State to trigger back on.

The State lost 13 weeks, is that correct?

Mr. LOVELL. That is correct.

And the old trigger—the new trigger which allowed Michigan to trigger off also triggered in eight States 1 week earlier than it would have otherwise. So on a national basis, I suppose, there was a wash. But obviously nobody likes to see a State like Michigan, in the condition that it is in, triggered off. And I will not argue that that is a desirable goal at all.

You know Mr. Chairman, as well as I, that the one thing that needs to be done to substantially reduce the unemployment rate is not a lot of Federal programs to provide benefits, but to have the economy turn up. I appreciate the fact that you might not share this administration's judgment of how that is to be achieved but I do not believe that anybody questions the desirability of strengthening the economy and having the economy improve again.

Chairman FORD. We have been waiting.

Mr. LOVELL. Well, I appreciate that. Clearly, on a worldwide basis both in the free world and in many of the communist nations, some severe economic problems have arisen. To solve these problems, a reduction in the general level of consumption and an increase in savings will be required.

I think that the next 10 years are going to be very exciting years for this country, very fine years. I am really very optimistic, and I would hate to see anything done in the short term that would reduce our capability of competing with the rest of the world, and reduce the economy's opportunity to turn around and to grow again with minimum inflation.

We have seen the inflation rate come down in a very substantial way, which nobody thought really was possible, a year ago. I will not say, nobody. I did not expect it to happen in as rapid a fashion.

Chairman FORD. Mr. Secretary, this administration's ability to respond to this problem, the unemployment problem in this country, certainly will have the able assistance and help of the chairman of this subcommittee in working with the administration in every way.

Mr. LOVELL. Well, we appreciate that. We will really be very happy to work with you as we continue to examine the alternatives that we have to deal with in a realistic way.

Chairman FORD. Mr. Moore?

Mr. MOORE. Thank you, Mr. Chairman. Mr. Secretary, have you done any studies, and do you have any information, this is separate and apart from what we were talking about this morning. But on the same subject as to whether or not there is an incentive to draw unemployment compensation benefits voluntarily in the sense that the plait is not closing.

But for one reason or another the worker finds it advantageous to draw unemployment compensation benefits primarily because $25,000 of those benefits on a joint tax return are tax free. Have you done any studies on that? Do you have any information to find out whether that is an incentive for the worker or not?

Mr. LOVELL. Well of course, yes. There have been studies. Concern has been expressed over a long period of time both with both the adequacy of the benefit structure and the aspects of the benefit structure that unfairly reward people that are not meant to be rewarded.

I would say this, that we are never going to get a perfect system that guarantees benefits for those who deserve it and deny it to those who do not. We want to work toward that end.

I think that we all know young people whose daughters friends I have seen this happen with, where they work a couple of years and then take off a year and draw unemployment benefits. I have seen this happen with some of my daughters friends. They have a modest lifestyle and they draw benefits as long as they can. And when that is over they go back to work again.

Mr. MATSUI. Will the gentleman yield?

Mr. MOORE. Yes.

Mr. MATSUI. Can you tell me how many people are in that situation. You know this administration seems to be governed by anecdote. I would like to know if it is 1 or 5 or 10,000 cases, because you are making a record on it.

Mr. LOVELL. Well, that anecdote is one from my own experience.

Mr. MATSUI. Do you happen to know the number? That is my question.

Mr. LOVELL. No. I certainly do not.

Mr. MATSUI. You do know that there is one case of abuse—some friend of your daughter's. But you do not know if there is any others?

Mr. LOVELL. Well I do know that there are some others, but I do not know the total number.

Mr. MATSUI. It might be a good idea for you to check those things before you state them publicly, because they do lead to misrepresentation. I yield back.

Mr. LOVELL. Let me respond to this. I started my comments by saying that no system is going to be perfectly fair. There are some payments being made unjustly.

Mr. MATSUI. We try to make a system that is not unfair.

Mr. LOVELL. But I said that in balance, I think that our system is pretty good and we need to work at it at both ends to make sure that the people who do deserve benefits receive them, and that those who do not. We want to make sure that the system does not encourage people to take advantage of it.

But I think that the unemployment insurance system is one of the finest social programs this country has, and just because it is abused from time to time, and I do not think that you can deny its basic fairness. I suppose that we can give studies on the amount of abuse, but basically it is a fundamental safety net for unemployed people. And it is the most effective safety net for unemployed people.

Mr. MOORE. That was my question. Do we have any studies now, are there any ongoing? I have entered anecdotes too. I do not wish to cite them this morning. That is why I am asking for additional information. Do we have studies like this?

Mr. VAN ERDEN. Mr. Moore, there have been studies made as to the extent that unemployment insurance might extend the duration of unemployment. We would be glad to provide those studies to you.

I think that it is fair to say that in an unemployment insurance system you are balancing two goals. In the first goal you are trying to provide time for the person to find a job at somewhere near their former wage. The other point is how long do you provide that assistance before it becomes a disincentive?

Some of the studies have indicated that unemployment insurance could extend the duration of unemployment up to a week. And as I say we would be glad to advise you of the studies that have been made.

[The following was subsequently received:]

THE BEHAVIORAL EFFECTS OF UNEMPLOYMENT INSURANCE, APRIL 2, 1982

GENERAL DISCUSSION ON BEHAVIORAL EFFECTS

A 1974 study (Munts and Garfinkel) summarized the so called "work disincentive" question. It was noted that high exhaustion rates in certain demographic groups such as older persons and younger women can result in part from reasons other than work disincentive—such as an inherently higher reservation wage, a lower demand for their services, or entitlement to fewer weeks of protection because of more intermittent work or lower earnings in the base period.

Munts and Garfinkel hypothesized that the reemployment rate among exhaustees should be relatively high immediately after benefits stop as those workers who previously refused jobs because of the availability of UI now accept jobs. The reemployment rate should then decrease in successive months as only the least employable workers and those with unrealistic expectations remain unemployed. Similarly, the labor force withdrawal rate should be highest immediately after exhaustion, then decrease substantially in successive months. The authors concluded that "even though the data are obviously incomplete, the reemployment rate pattern does conform to that predicted by the work disincentive hypothesis." They note that the less clear pattern of labor force withdrawal also suggests either that some claimants

who intend to withdraw from the labor force draw benefits as long as they can, or that some workers who might be discouraged and withdraw from the labor market early are induced by UI benefits to continue searching for a job longer than they might without them. The high rates of unemployment among exhaustees in the first months after exhaustion in many states indicate that many would have continued to be unemployed even in the absence of the UI program. An important deficiency in data was the absence of reemployment and withdrawal rates among beneficiaries prior to exhaustion.

Munts and Garfinkel emphasized that, while there may be short-term disincentive effects of UI, insofar as benefits received induce some recipients to turn down available jobs, there may be, over the long run, social and economic benefits such as increased job stability, higher labor productivity, and lower rates of unemployment, as the worker is afforded time to find a permanent and more suitable job, rather than a temporary or unsuitable one. It should be noted that Munts and Garfinkel distinguish between work disincentive effects per se (evidenced by an increase in the rate of reemployment immediately following exhaustion of benefits) and labor force participation effect (that would be evidenced in an increase in the rate of withdrawal from the labor force at that time). Moreover, it is recognized that the work disincentive effects are not necessarily bad from a social standpoint.

Solon 1978 provided a cogent discussion of the possible effects of UI on labor market behavior. The work disincentive may take place in two ways:

1. The availability or liberality of UI might increase the duration of spells of unemployment. Because UI reduces the cost of unemployment, it might enable the beneficiary to prolong a spell of unemployment either to search for a better job or to substitute leisure for work.

2. UI availability or liberality might increase the frequency of unemployment by reducing the costs of seasonal and other unstable employment patterns. In the absence of UI, employers could entice workers to choose such employment only by offering higher wages. The higher cost of labor would encourage employers to stabilize their employment patterns, thus reducing the frequency of layoff.

According to Solon, the availability or liberality of UI might affect labor force participation in the following ways:

1. UI might encourage continued job search by people who would otherwise become "discouraged workers."

2. UI might encourage people who are not genuinely interested in work to pretend they are seeking work, so that they can collect benefits.

3. UI might induce some people who would not otherwise be interested in work to conduct genuine job search in accordance with UI eligibility requirements.

4. UI might induce some people who would otherwise be out of the labor force to take seasonal jobs, because the promise of off-season UI. This could be construed as a work disincentive effect for workers who would otherwise be in year-round employment.

The fact that the type of individual mentioned is prone to above average periods of unemployment explains the observed positive association between UI liberality and unemployment duration.

Solon also points out that unemployment duration and compensated duration are an inappropriate statistic for measuring UI work disincentive effects. The only way to pin down the latter is to analyze employment rather than unemployment.

Increasing potential duration increases compensated unemployment and the cost of the program if only by permitting the truly unemployed person to draw benefits longer as he continues to look for work. This is not necessarily a behavioral effect, however, since he might have acted similarly even in the absence of benefits.

To summarize some of the above, a higher potential duration might affect labor market behavior in at least the following ways:

1. by encouraging continued job search by people who would otherwise become "discouraged workers" and stop looking for work;

2. by encouraging people who are not genuinely interested in work to pretend they are seeking work, so that they can collect benefits;

3. by allowing people who would otherwise take available jobs to afford continuing unemployment.

Effect 1 is mainly a positive factor except for the possibility that the seeker may simply be wasting time. Effect 2 is a totally negative factor. Effect 3 is often seen as mainly negative. However, there are good aspects as when by staying unemployed a little longer the worker will eventually end up with a job more suited to his skills and at a higher wage. (The notion of job suitability is embodied in all state UI laws.) In any case, all 3 effects are likely to cause a longer average duration of unemployment and increase the unemployment rate.

It would be desirable for good duration policy formulation to be able to evaluate the positive and negative aspects of each of the 3 effects. Much effort has been expended on this endeavor in recent years, with only modest success.

EFFECT OF POTENTIAL DURATION ON EMPLOYMENT AND UNEMPLOYMENT

Holen analyzed data from the service-to-claimants project, an experimental job search counseling program involving UI claimants in San Francisco, Boston, Phoenix, Seattle, and Minneapolis-Saint Paul. She regressed claimants' weeks of compensated unemployment per completed spell against their WBA, potential duration, and a set of control variables including base period earnings and number of quarters of previous earnings. Her potential duration coefficient was about .8 suggesting that an additional week of benefits available is associated with an additional .8 weeks of compensated duration. Holen cautioned that this relationship does not necessarily reflect any behavioral response, since the quantity measured is compensated duration not actual duration. One need have no reason to question Holen's methodology to be astonished at the magnitude of the estimate. It is difficult to reconcile with the often observed fact that in normal times the upper limit on the exhaustion rate is considerably less than 30 percent. (Holen 1977)

Solon (1980) also followed a multi-state approach to try to ascertain the influence of potential duration (among other things) on compensated unemployment. The study used a CWBH sample of claimants who began benefit years between October 1978 and February 1979 in Iowa, Nevada, and New York. The data were almost 10 years more recent than Holen's and were perhaps more representative of all claimants rather than those eligible for a special program. Claimant's weeks of compensated unemployment were regressed against WBA, potential duration, and a set of control variables including prior earnings, age, and dummy variables for sex, race, and state. The independent variables were the same as in Holen's study with two notable exceptions—occupational variables were not used because of the large number of missing values, and information on number of quarters of previous earnings (which Holen used to control for employment stability) was not readily available.

Solon's results with respect to potential duration differed markedly from Holen's. His coefficient had an estimated value of .1, suggesting that for each additional week of entitlement, the claimant would draw only a tenth of a week more of compensation. Solon thought the disparity might be attributable to a bias problem. The effect of potential duration is exaggerated by the definitional relation between actual and potential duration for claimants who exhaust benefits. Because his sample had far fewer exhaustees than Holen's, it could be subject to a smaller bias. Another possible reason for the disparity was that Holen's sample was restricted to claimants not expecting imminent recall from previous employers. However, when Solon reestimated his potential duration coefficient confining the sample to claimants who indicated they did not expect recall, the value increased only to .22 weeks. Solon also estimated the potential duration coefficient when high quarter earnings were used to control for prior weekly wage and the ratio of annual to higher quarter earnings to control for employment stability. New York claimants were excluded because the state does not collect high quarter earnings. In any event the value of the potential duration coefficient was not affected appreciably by the additional control variables.

Newton and Rosen tried to overcome the truncation problem by using a maximum likelihood technique designed for limited dependent variables. They used data from a single state—Georgia in 1974–1976—and regressed weeks of compensated unemployment against potential duration, among other UI variables. They found that a one percent increase in potential duration was associated with a 1.09 percent increase in unemployment duration compensated. Corson and Nicholson (1980) translated this result into the finding that an additional week of potential duration is associated with .4–.5 additional weeks of unemployment. There are several difficulties with this study. Under any circumstances, potential duration as an independent variable should be controlled for stability of prior employment. This is because the calculation of potential duration is some fraction of base period earnings divided by the weekly benefit amount. The related problem, however was that data from only one state was used. Controlling for stability would have removed the variation from potential duration. (Newton and Rosen 1979)

Brewster et al., using a nationally representative sample of FSB claimants found that each week of potential benefits resulted in about .3–.5 weeks increase in the duration of unemployment. For males this increase resulted from reduced employment, whereas for females the increase resulted both from reduced employment and

reduced time out of the labor force. Since these results pertain to a population of FSB claimants rather than UI claimants at large, the .3–.5 week range should probably be considered as an upper limit estimate for purposes of regular duration policy formulation. (Brewster et al., 1978).

Solon studied the effect of access to extended benefits in New York state on subsequent weeks of unemployment and employment. A sample of exhaustees was divided into 3 groups—those who had no access to EB, those who had access to EB immediately after using up regular benefits, and those whose access to EB was delayed because their exhaustion of regular benefits occurred before EB had triggered on. Immediate access to EB as opposed to no access increased the weeks of unemployment in the half year period following exhaustion by 4. The difference was significant. However, when "repeaters"—those who received UI benefits in at least 2 or the last 5 years—were analyzed separately, a significant reduction of 4.3 weeks of employment was observed. The two findings can be translated to a .3 week increase in unemployment for exhaustees and a .3 week decrease in employment for exhaustee repeaters for each additional week of potential duration. (Solon 1978)

Corson and Nicholson report on a study by Moffitt and Nicholson that attempts to isolate the true work disincentive effect of increasing potential duration. The population studied was FSB claimants. Using a kinked budget constraint and maximum likelihood procedure they found that one additional week of potential duration resulted in .1 additional weeks of employment. (Corson and Nicholson 1980) Because of the population studied, this estimate too might well be considered upper limit.

EFFECT OF POTENTIAL DURATION ON JOB SEARCH

As indicated, the negative aspects of work disincentive effects of longer potential duration (effect 3 above) may be counterbalanced by beneficial job search outcomes. There is a strong presumption that continued availability of unemployment benefits permits individuals to hold out for and perhaps eventually receive higher wages. The empirical findings on the effects of unemployment benefits on past-unemployment wage and job search intensity is scanty and ambiguous.

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Mr. MOORE. The anecedotes I have heard have led me to believe, from a man who I have talked to in my district, that there comes a time when deer hunting season comes on, when they cease work, draw unemployment compensation benefits and they know precisely at what point. A tax-free $25,000 income equals a great deal more income working at an hourly rate or whatever, and when they reach that point, they go back to work. That is assuming that we do not have the unemployment problems that we have currently.

Do we have any information on that? Can we get any information on that?

Mr. VAN ERDEN. As far as the taxes, and the implication of taxing the benefits, I am not sure that there is anything on that, but we will check for you.

[The following was subsequently received:]

The Department of the Treasury has responsibility for evaluating this subject and we are informed that any request for information you may have should be addressed to that Department.

Mr. LOVELL. The study by Mathematica that I cited earlier shows that, when benefits were exhausted, one-third dropped out of the labor market and 60 percent got jobs within a month.

I think that it is suggestive of the phenomenon that we are discussing here.

Mr. MOORE. Now, the changes that we made in the Reconciliation Act of 1981—your testimony this morning implied that you were quite happy with those changes. As a matter of fact, with the exception of the aberation here in the case of Michigan, did you not testify that we wound up with more people on unemployment by virtue of the changes that we made last year, than if we had left them alone?

Mr. LOVELL. In terms of the change in the State's trigger, I believe that is right.

Mr. VAN ERDEN. Your question is, Are there more people on unemployment because of the changes that we made last year?

Mr. MOORE. Because the triggers came in a voucher on a State-by-State basis, we wound up with more people getting benefits sooner than they would have under the old law with the national trigger.

Mr. VAN ERDEN. In at least eight States, because of that change, the States did trigger on earlier. Only Michigan was the exception.

Mr. MOORE. My initial comment was we should try to address whether or not these changes have been harder on the people of this country or have actually been fairer. It appears to me that what you are telling me is that the changes we made last year were found to be fairer to the American worker.

Mr. LOVELL. I think that is true.

Mr. MOORE. The two changes that you are proposing for fiscal year 1983 seem to me to be rather minor.

Chairman FORD. Would you yield on that?

Mr. MOORE. Certainly.

Chairman FORD. Just for the record, please explain that. Are you telling me that under the Reconciliation Act that more States will trigger on or that more will receive assistance under the new changes, under the Reconciliation Act of 1981, than under previous law?

Mr. VAN ERDEN. What we are saying is that there were States that triggered on earlier in the year than would have had we not made the change in the calculation. And the reason for that is that——

Chairman FORD. What was the State trigger prior to——

Mr. VAN ERDEN. The State's trigger——

Chairman FORD. For the record, let us talk about the new changes that we made under the Reconciliation Act, with regard to the national trigger and the State trigger rate. Just for the record, explain that.

Mr. VAN ERDEN. Under the Reconciliation Act, the first changes were made in the EB triggers to eliminate the national trigger. And as the Under Secretary testified, if the national trigger was still in effect today it would not have triggered on. We have not reached a level of unemployment to cause the national trigger to go on, had it been in effect.

The second change that was made was to change the way in which we calculate the rate that determines whether an EB period begins. The old way that we used to count the claims for regular unemployment insurance, as well as the claims for extended benefits, once they are payable in the State.

Now, this is the particular change we are talking about now. Elimination of this rule which provision allowed at least eight States to trigger on earlier this year than they would otherwise have. And the reason for that is this: The rate, the critical values at which a State triggers on. A State has to have an unemployment of at least 4 percent and has to have a rate at least 20 percent higher than the prior 2 years. If we had not made that change, the rate in the prior 2 years would have been putting EB claimants in

their calculation. It would have been a higher rate, and therefore, the States rate would have to be higher now, then it otherwise had to be.

So it allowed the States to meet the higher than 20 percent criteria sooner than had the change not been made. And that affected at least 18 States or at least 1 week.

And we can provide you with more detail on that if you would like.

Mr. LOVELL. I would like to change one comment, if I may, Mr. Moore. I think that it is more generous, I am not sure if it is fairer, I think that it is more generous. I do not think that the recommendations that we made are necessarily unfair.

Chairman FORD. My records show that the impact of repealing the national trigger is an estimated savings of $461 million, and that 766,000 will lose at least 1 week of benefits they might otherwise have received.

Are these figures the current administration estimates?

Mr. VAN ERDEN. The figures you have before you are earlier estimates of what would be the impact this year. The problem you have with any forecast is that the economic conditions may not be exactly what you have in the forecast. And that is exactly what happened.

We were looking at the situation last year, and we had a certain set of economic assumptions. We measured the impact of the changes based on those economic assumptions. Those economic assumptions were not quite right.

So under the current actual data that we are getting right now, the impact is different than what you have in those numbers, that is correct.

Mr. MOORE. Mr. Chairman, that was my point. I am glad that we brought out the fact that there has been some criticism of the changes made last year. It appears to me that the changes we made wound up being fairer or more generous, as the Secretary says, by allowing States to trigger on earlier than the old one would have allowed them to do, therefore taking care of more unemployed people regardless of what the projections were at the beginning.

We had two proposed changes I understand. They both appear to be rather minor. One is to take care of the definitional problem that the Defense Department did not clarify in the UCX changes made last year. Is it your opinion that the language you are proposing to amend would take care of the criticism we heard earlier this year and last year about this program?

Mr. LOVELL. Yes, sir. And that is what it is designed to do, to be more equitable. These people should not be allowed to have benefits, because by and large they are people that the services did not wish to retain in the service.

Mr. MOORE. Then the legislation that the House has already passed, I believe, is now going to conference and would be unnecessary when we adopt this amendent.

Mr. LOVELL. Yes. I think that is true.

Mr. MOORE. The other amendment is also rather minor, it seems to me. So the changes you are proposing appear to be not that great from what we did last year.

Mr. LOVELL. That is correct.

Mr. MOORE. Have you done any analysis yet in trying to determine whether we are being fair or whether we are being cold hearted to the military people who have been denied UCX. Have we done any analysis of what the problem was?

Mr. DESLONGCHAMPS. We do not have data with regard to how many people have gone back to work, but in terms of the data for the last quarter of the calendar year 1981, the October-December period, compared to the similar quarter in the year before, 1980, there were 49,000 in that quarter in 1980 that filed claims. There are only 24,000 that filed in 1981.

Also, of those who filed in 1980, 19 percent were found ineligible for one reason or another, or did not return for their claim. In 1981, with the new law, 77 percent were denied. So it did have an impact.

Mr. MOORE. You are proving the fact that it had the impact. Now, is it possible for you to do an analysis of those who were turned down so that we can evaluate, did we in fact leave Veterans walking the streets in tattered uniforms that could not find jobs?

Did we in fact have a program that in fact should have been cut back? To start with, I am wondering can you give us any kind of analysis like that of the 77 percent we turned down?

Mr. LOVELL. We could take a look and see if that is possible. Of course, as you know, the purpose of making this change was not to award people that we wanted to have remain in the service by offering them a bonus to leave.

Mr. MOORE. I understand that. I agree with that.

I am just wondering if it would help us in trying to analyze what we have done——

Mr. LOVELL. We could take a look and see whether that is possible.

Mr. VAN ERDEN. We generally lose track of the claimants once they drop out of the system.

Mr. DESLONGCHAMPS. In this case, they did not come into the system.

Mr. VAN ERDEN. That would require special studies.

Mr. MOORE. We would certainly appreciate that. Perhaps the State unemployment offices or someone can help us with the special studies.

The chairman of the committee asked some very disturbing questions, questions that disturb us all. Unemployment in my State—mine is one of the Sun Belt States, as is his—has normally been recession proof. My State has 10 percent unemployment, my hometown does. That is something new for us and we are very disturbed about it.

Is it your opinion that we are getting far afield from the purpose of the hearing this morning? The chairman opened the door, so I will walk through it as well. Is it your opinion that a great part of the unemployment we are presently suffering is due to the recession? We know that there are problems of competition and so on, but the general unemployment situation?

Mr. LOVELL. Oh, clearly. The unemployment that we are suffering today is caused by a very substantial reduction in business

output. It is being led by primary industries such as construction and automobiles.

But that has trickled down so that the whole level of business activity has been reduced, as you know.

Mr. MOORE. At a plant in my district, they laid off 250 workers for 7 weeks on the assumption that the market was now soft, and there was no need for the product, but it was indicated that they would be returning in 7 weeks.

I guess that they are basing their plans on the planned economic recovery that people are saying will occur sometime this summer. Thirty-nine weeks of benefits would take you to almost the end of the year. Am I correct in that?

Mr. LOVELL. As I say, I think that we have to recognize that the average length of unemployment is between 13 and 15 weeks. So the average person who is out of work does go back to work quicker than that time. But even taking the less fortunate, you know, the vast majority do go back to work before the 26 weeks are up and even a larger portion go back to work before the 39 weeks are up.

So I feel very comfortable in saying that our present system really is adequate to take care of the vast majority of the human needs at this stage of the recession.

Mr. MOORE. The chairman asked you the question, what does he tell his unemployed people. I was faced with that yesterday as well.

About the only thing that I would tell them, and I think that you indicated this in answer to the chairman's question, the only solution to unemployment is recovery of the economy and a growth in the economy. And no amount of programs we are going to pass will do more than that could.

Mr. LOVELL. That is absolutely correct. I think that it is also fair to say, there is nothing very useful you can tell someone who is out of work.

Mr. MOORE. Leading into the next witness, I have one last question, Mr. Chairman, and I certainly appreciate the generous time that you have given me.

The administration is talking about new proposed employment initiatives to help people find jobs. Can you tell us this morning anything about that?

In other words, we are not talking about the people who are perhaps laid off and have a skill, and when the industry revives, they can go back to work. I think that we are talking now, about people who have no skills, for example welfare mothers who are hoping to go back to work.

Mr. LOVELL. The administration's employment and training program is aimed at the disadvantaged. It is predominantly targeted on disadvantaged youth from 16 to 25 and welfare mothers. Those are the groups that have the greatest need, and they have responded most favorably to Federal programs. Both institutional training and on the job training is included in the program that the President has recommended. Hearings are being held now.

These are people who, either in good times or bad, would have a difficult time in getting a job. They are not really competitive in the labor market at the present time. Many of them need basic education and other skilled training.

Mr. MOORE. The WIN program was supposed to have done this.

Mr. LOVELL. WIN was part of that overall method. That is correct.

Mr. MOORE. That is being block granted in our proposal.

Mr. LOVELL. That is right. It is being phased out of the Labor Department budget completely, and that responsibility will be taken over both by the new employment training plan and by Health and Human Service block grants to the States.

Mr. MOORE. Is it going to become an integral part of the new plan?

Mr. LOVELL. That is up to the States to decide whether they will continue that or not. I would presume many of them will.

Mr. MOORE. Thank you.

Thank you, Mr. Chairman.

Chairman FORD. The Chair would recognize Mr. Matsui, but would ask him to yield to Mr. Bailey at this time because of another subcommittee conflict.

Mr. MATSUI. I will yield.

Chairman FORD. Mr. Bailey.

Mr. BAILEY. Thank you very much. I thank my colleagues.

We have testimony before the Trade Subcommittee now on the Caribbean trade initiative, and it ties in, unfortunately, very well with what we are discussing here today. I would like to make a couple of comments, and I appreciate the chairman and my colleague's indulgence that I have to run back upstairs and fight a battle.

I am particularly concerned, and this subcommittee has been, with the issue of ex-servicemen. You have testified that apparently you do not feel that what you are recommending is unfair in that regard. How is that consistent with the Quayle-Hatch bill, S. 2184? I understand the administration is for the Quayle bill, that there is an acknowledgement in section 224 of that legislation about the problem, and that it does provide for a job training response, does it not, to the unemployment problem of ex-service members?

Mr. LOVELL. The administration is not supporting the Quayle bill. It is supporting its own bill. There are many aspects of the Quayle bill that we are supporting, but we are not supporting the Quayle bill. We have our own.

Mr. BAILEY. Do you have any recommendations that deal with the problem of that unwanted honorably discharged veteran that does not fulfill your requirements for MOS quotas?

Mr. LOVELL. Well, in our employment and training programs, anybody who is poor and out of work within the age group between 16 and 25 is eligible, and conceivably many young people coming out of the service would fall in that category. In addition, 10 percent of the money that we are recommending, which would be about $180 million, would be available for older people, between 25 and up.

Mr. BAILEY. Let me say this to you. Let me get something off my chest. I think the approach you are taking is wrong, and I think there are things that we have an obligation to say to unemployed people. Certainly, the things that my colleague from Louisiana said I happen to agree with. I think generally we have to justify those arguments in terms of the general economic conditions.

You folks are recommending and following a policy that is causing a number of structural unemployment problems in this economy, very serious ones, and we are dealing with one of them upstairs right now, a half a million jobs in this country in the leather industry area and related areas of certain kinds of footwear that are going to simply be transfered outside of this country with nothing more in our committee than a recommendation on trade adjustment assistance that would be zeroed out.

There are a lot of things in the structural area particularly that we can be saying to people, and I am from a part of the country where it really impacts.

The other thing I will say is this. You are asking many ex-service members to return to a nonexistent job market—many of them are black. I got into this thing because I had two cases at home that really led me to get into it, where a young fellow had to get out of the service to look after a father who had a stroke, and there is simply no job market there at all, no chance to relocate, no money to put in his pocket to do anything with, and the money that he is supposed to save up because the world is full of ants and not grasshoppers he had to spend or had to send home for maintenance purposes.

I think your policy is having a cruel and devastating impact on those people. I hope that that transition, the needs that they have—in fact, our recommendation was a modification of resources that would be available to someone in the private market, and I beg you, I am pleading with you to try to do something, to find some help for those people. Believe me, it is a cruel, cruel thing to just jump off an airplane and be separated and come home and there is nothing there. You have not had a chance to look around. You have been away for a few years. Maybe you were in Germany a couple of years. You have nothing. It is cruel, and it is wrong. Try to help with it, if you can. Just try.

Mr. LOVELL. I recognize that in anything one does, there are some hardships that may be inflicted. But I think if you look at the broad scope, these are people that the services wish to keep, and the country needs to keep, and for us to encourage them to leave by paying them benefits I think is wrong. I think that if we have certain special problems with special people, maybe those things should be looked at individually, but I do not think we should pay the vast majority of people benefits in order to take care of the needs of a very few.

Mr. BAILEY. We have been over this with so many of the other witnesses here, but the idea that this is an encourgement is absolutely a cruel and dishonest way to approach the retention and recruitment problems of the military. If you think you have a happy soldier in that kind of situation, I think you are making an absolutely terrible, terrible, terrible mistake, because you do not. You do not do anything for America at all, and it is just a cruel, a very cruel program and approach that you are taking. I think it is flat wrong, and a point of view that cannot be defended. I know you have economic problems, but that is the wrong way to balance the budget, in my opinion.

Mr. Chairman, thank you so much. I appreciate it.

Chairman FORD. Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

Could you tell me, Mr. Secretary, with respect to the issue of the national trigger being eliminated and also the extended benefit issue, what are those eight States that have begun to receive benefits earlier?

Mr. VAN ERDEN. We can supply it for the record, if you would like.

Mr. LOVELL. The States I have, and I think this is right, are Alabama, California, Idaho, Indiana, Maryland, Ohio, Tennessee, and Wisconsin.

Mr. MATSUI. I see. Michigan was not included?

Mr. LOVELL. I said that Michigan was the one State that was adversely affected because they triggered off.

Mr. MATSUI. Do you happen to know the number of people that would have benefited under the old formula as opposed to those who have benefited under the new formula?

Mr. VAN ERDEN. We will get that for you.

[The following was subsequently received:]

The following States paid EB earlier than they would have had the reconciliation changes not been made. Those States with a (1) would still not be triggered on as of March 20, 1982. The total number of claimants impacted is estimated to be at least 180,000 through March 20, 1982.

STATES

Alabama [1]	Maryland
Arkansas [1]	Massachusetts [1]
California [1]	Minnesota [1]
Idaho	Ohio
Indiana [1]	Wisconsin

Mr. LOVELL. I want to say, and I do not want to play games with this committee, but the intention of the amendments was to reduce the number of people who would draw them. This was done as a method to decrease the cost of the program, and we would hope that it would serve in that fashion next year. This was not an effort to be more generous. It happened to work out that way, but that was not the intention.

Mr. MATSUI. It is my understanding, especially since the staff recently has refreshed my memory, that when you first brought before this subcommittee your proposal on eliminating the national trigger, your intent was not to have these eight States or any eight States receive benefits earlier.

Mr. LOVELL. The national trigger would not have gone on. That is a separate issue.

Mr. MATSUI. But it is my understanding that the eight States would not have received these benefits under the original formula that you presented to us. It was not until the Ways and Means staff actually worked with you that the actual formula was developed which in turn has generated early benefits for these eight States.

Mr. LOVELL. That was before my time.

Mr. MATSUI. Is that the opinion of the two gentlemen with you?

Mr. VAN ERDEN. I am not sure.

Mr. MATSUI. I wanted to know who is responsible for this flagrant extravagance that we have now. Was it us or was it you?

Mr. LOVELL. We will share credit with you, Mr. Matsui.

Mr. MOORE. Would the gentleman yield for a moment?

Mr. MATSUI. Yes; I would.

Mr. MOORE. I played a part in some of this last year, and with all deference to the Secretary, I think he is quite right that everyone was looking at savings, but we were also looking for the flexibility which the law has given. No one saw what was going to happen, but I am quite content with that change, to allow a State to come on or go off not based on a national trigger but its own individual problems. That was more our concern last year. We thought it would save money, but I am unhappy that it does not. It is much better to have a State that is in trouble trigger on a week or two sooner than not because we have a law that would prevent that. So, I differ from the Under Secretary in the sense that I am not discouraged one bit or disappointed that our plan did not work. I think it did. It gives us the flexibility we are trying to get.

Mr. MATSUI. Actually, I do not have any other specific questions. I would like to ask, some followup questions to those asked earlier by the chairman. These are more general in nature, and perhaps you will have to give a general answer. Assuming that the recession does not end this spring or summer or even the fall of this year, and assuming that the unemployment rate does remain at 9½ percent or 10 million people, and assume we do not have the economic recovery that we all hope to have, do you have anything on the drawing boards right now to help the States and some of the localities deal with the problem which will be in a crisis if the administration's hopes do not come true?

Mr. LOVELL. I indicated, I think that any responsible administration has to have fallback plans in case things do not work out perfectly, and we obviously will be watching the unemployment rate. We will be watching the state of the economy. So, I certainly would not want to be in a position where I said no, where we are just so sure of everything that is going to happen that we will not think of anything else. Obviously, we are sensitive to the human concerns that are involved, and they are very real. So, we will be watching it carefully, and we certainly will be considering a variety of efforts that could be ameliorative if we decided it was needed.

Mr. MATSUI. Well, Mr. Secretary, I was thinking of a more specific plan. I know that your answers have to be general, but we have to start thinking about the unemployed. Specifically, are you thinking about a jobs program? Are you having some people in your department work on a program just in case things do not get better? As you know it will take some time to develop a program and get a national consensus.

Mr. LOVELL. I think that getting the national consensus may take time, but the development of a wide variety of programs does not take that much time. We have tried a lot of different things over the last 20 years. We have had a lot of experience in it. We know a lot of the things that do not work very well, and I think that our experience with public service employment has been a great disappointment. I think we all entered into it with some sense of optimism that it would be constructive. We spent $53 billion over a 7-year period, and it was not a very constructive thing.

I do think that the main program to help unemployed during periods like this is the unemployment insurance program. It is the major program. I must say I would rather see us move in the direction of dealing with these problems through our unemployment insurance program than I would make-work programs such as public service employment.

Now, as you know, and we were talking with the chairman about this earlier, there are different kinds of unemployed people, and the nature of the problems is very different. So when you deal with some of the structural problems that are developing, whether it is on the basis of trade or on the basis of a change in the basic nature of an industry, the nature of the solution has to be different.

Chairman FORD. Mr. Secretary, then I gather you are opposed to workfare that the administration has endorsed and supported?

Mr. LOVELL. No; I am not.

Chairman FORD. What is the difference between these makeshift public service jobs and workfare?

Mr. LOVELL. As you will recall, the public service job program, these were jobs that were within the State and local civil service systems. They were jobs that paid fairly substantial wages, and workfare really is a question of somebody getting their welfare benefits and giving something in return for it.

Chairman FORD. Well, they are very significant and meaningful jobs, especially in my home town. I do not know about the other parts of the country.

Mr. LOVELL. Well, you know, we have a lot of time to get into this. We have done a lot of work in this area. But I think that unless you would like further discussion on it, there is no indication in terms of our longitudinal studies, which have been fairly responsible, that the people who have participated in these programs were able to increase their earnings over time in any way that would compensate for the amount of money we have put into them.

Obviously, there is an infinite amount of work in the public area that can be done that has some marginal value. Judgments have to be made as to how much of the taxpayers' money we spend for this kind of work, especially under the economic conditions of today. A lot of the work that has been done on public service employment is not really vital and necessary.

I think that the costs are very high, and there is a lot of research in this area that substantiates that point of view.

Mr. MATSUI. I guess, Mr. Secretary, what I am trying to find out is, is there anybody in the Department right now working on some programs just in case there has been a mistake?

Mr. LOVELL. I indicated, I think, that my personal inclination would be to look to the unemployment insurance program first.

Mr. MATSUI. But that is not a structural unemployable problem.

Mr. LOVELL. Well, yes, we do. We have a cabinet council reviewing the various things we need to do to help the structurally unemployed, the displaced worker.

Mr. MATSUI. In what way?

Mr. LOVELL. We are trying to——

Mr. MATSUI. The WIN program is to be eliminated.

Mr. LOVELL. The WIN program is not for structurally unemployed. The WIN program is for people on welfare, and those problems.

Mr. MATSUI. I did not know there was a distinction, but I guess I do now. Statistically, maybe.

Mr. LOVELL. No, no, no. The nature of the people on welfare differs from the structurally unemployed. By structurally unemployed, I mean people who are displaced from the work force because of the change in the nature of their work.

Mr. MATSUI. Then your statements are consistent.

Mr. LOVELL. We are working on the problems of the displaced worker. The displaced worker, unfortunately, has been the individual who has to first adjust to the fact that he probably is not going to go back to work for the same company at $15 an hour and then has to adjust to a lower wage, maybe $7 or $8. Very few people really want to move to a new location, even if there is work, and experience has been that when people do move, they come back, particularly if they are middle aged or older.

So, there is a psychological adjustment that must take place. The role a public authority can play in that adjustment is being worked on by the employment services. The Downriver experiment has contributed a lot to that analysis as well.

What is the appropriate role for the companies that have employed these people? What share of the burden should they share? As I indicated, the Ford Motor Co. has now gone into this program with this new contract, putting aside 5 cents an hour. Other industries have done that. On the west coast, the longshore industry negotiated a 5-cent-an-hour fund which was used to help relocate people who were displaced by automation on the docks.

So, we are looking at a lot of these things. Training, of course, in some instances is a possible option, although a lot of these people do not need training. So, those are some of the things we are looking at.

Mr. MATSUI. Thank you, Mr. Secretary.

Chairman FORD. Mr. Pease?

Mr. PEASE. Thank you, Mr. Chairman.

Mr. Secretary, in light of the President's impending public relations campaign to prove that he is not an enemy of the poor, the lame, and the unemployed, I think it is useful for us to have your testimony today. The unemployment changes made last year turned out to be more generous than before, and that was certainly not your intention.

Mr. LOVELL. Well, I do not think it was the intention of the Congress when they passed it. It was the intention to reduce costs, to reduce the load of the budget. I do not know how you voted on that, Mr. Pease, but I think that nobody that voted for that at that time did so with the idea that they were being more generous. I am just trying to be honest with you. I am not trying to deceive you.

Chairman FORD. Mr. Pease, would you yield at this point?

Mr. PEASE. Sure.

Chairman FORD. At some point this must stop. We talked about the fiscal 1982 figure, but let us talk about the fiscal 1983 figures. Let us talk about those who are going to lose benefits in 1983. Would you tell me about your projections for 1983? Let us talk

about the projections for 1983 and we will see the effect this Budget Reconciliation Act is going to have on those who are unemployed. Stop fooling this committee and the people in this committee room.

Mr. LOVELL. I pointed out that that was the purpose.

Chairman FORD. I did not vote for it, and I am proud of the fact that I did not vote for the Budget Reconciliation Act last year.

Mr. LOVELL. I did not say you did. I said that those who did, did not do it with the thought that they were being more generous, and I think that is accurate, and my statement was that there will be savings in 1983, in my judgment, from the enactment of these provisions.

Chairman FORD. There is 12.1 percent of unemployment in my State, and I do not think those who are walking around every day seeking and trying to find employment would feel that this administration has been more generous to them in the Reconciliation Act at all.

Mr. LOVELL. Mr. Chairman, I think you made your views very clear in that regard.

Chairman FORD. I am sorry, Mr. Pease.

Mr. PEASE. That is OK, Mr. Chairman.

I guess I would just like to observe relative to what Congress did last year, which you referred to, I did not vote for it, either, and I think everyone ought to be clear that that was not a product of the Congress, except in the sense that the reconciliation bill was enacted by Congress. The cuts did not come through this committee. They were not proposed by this committee. They were imposed as part of the omnibus reconciliation bill, a product of the administration and its supporters in Congress on that bill.

Mr. LOVELL. That is true.

Mr. PEASE. Second, this is a little bit off the point, but Mr. Chairman, I came across some figures just recently which I think are instructive regarding the general question we are discussing here today, and that is, a CBO report that came out about 3 weeks ago tried to assess the benefits and the losses from the President's combined economic program, both the tax cuts and the spending cuts and it found that for the 49 percent of all Americans who earn less than $20,000 a year, the net gain from the combination of the tax cuts and the spending cuts was one-third of 1 percent; 49 percent of the people get one-third of 1 percent of the benefits from that kind of package.

I think the President has his work cut out for him in trying to convince people in that income group that he is not out to get them.

Well, let me ask you, Mr. Secretary, about a couple of other things, more technical and less political. In my State of Ohio, as a result of the change in the law that requires that interest be paid on borrowing from the Federal Government, we almost were unable to pay our unemployment checks to anybody in the month of April, and the State finance office figured out a way to do it for April, but they do not know so far how to do it for May or beyond.

Has your department given any thought at all to problems like that for Ohio which derives chiefly from a constitutional problem,

but the upshot of it is that they may not be able to pay unemployment to anybody?

Mr. LOVELL. No; we think that all States should be able to pay their benefits. I am familiar with the problem. I think that it can be worked out.

Mr. PEASE. Do you have any idea how that will be worked out?

Mr. LOVELL. Our lawyers and the State lawyers are talking about it. I have been told that it is well on its way to a solution.

Mr. PEASE. I hope you are right.

Mr. LOVELL. I do, too.

Mr. PEASE. Finally, an announcement was made a couple of months ago that a number of people on the employment services were being laid off, those people whose task it is to find jobs for people. How is that program proceeding?

Mr. LOVELL. As you know, that money was restored, and we are back at the 24,000 level, and I think that the employment services are functioning.

Mr. PEASE. So all of your employment specialists so far as you know are back on the job?

Mr. LOVELL. Yes, sir.

Mr. PEASE. Were they laid off for a period of time?

Mr. LOVELL. In some States they were.

Mr. PEASE. I see. OK. Thank you.

Mr. Chairman, thank you.

Chairman FORD. Mr. Secretary, I want to thank you very much. If you have any final comments, we would be happy to hear them.

Mr. LOVELL. No, I have had more than my share of opportunity to discuss it with you all.

Chairman FORD. We certainly would like to thank you for appearing before the committee.

Mr. LOVELL. We would like to work with you, Mr. Chairman, as we go down the road on this.

Chairman FORD. As I said earlier, we stand ready to work with the administration. We feel that the administration should show the ability to respond to the unemployment problem, and hopefully we would not have to wait until the end of the summer or some other time to decide if we need some support systems.

Mr. LOVELL. My office is always available to you and other members of your committee or your staff, and we welcome any thoughts that you may have at any time.

Chairman FORD. I have one additional question and you can probably submit your answer for the record. The difference between the total insured unemployment rate and the number of people who draw on unemployment benefits is currently larger than it was in the past. Why is this?

Mr. LOVELL. I wish I could say that we knew the exact answer to that. I think it is probably a combination of events.

Chairman FORD. For the record, if you can come up with that answer after you go back to your office, we would like to have it for the record.

Mr. LOVELL. Let me give you a couple of reasons. One is, you found, if you look at the fifties, the sixties, the seventies, and now into the eighties, that that gap is widening over that period of time. To some degree, it may be caused by the different nature of

the work force. As you know, the baby boom has entered the work force, and a lot of the unemployed may be counted as new entrants or reentrants in the labor force. Young people coming in would be new entrants in larger number. Reentrants might be women moving into the labor market either for the first time or coming back into the labor market.

The tremendous influx of both younger people and women into it in the categories of new entrants and reentrants may be part of the cause. A general tightening up of standards might be part of the cause, and some of the changes this year might be the result of the back-to-back recessions that we have had over the last couple of years.

So those are some of the reasons. I cannot tell you, in all honesty, that we are sure that those are the reasons. It is a phenomenon that we are watching and examining very closely.

Mr. VAN ERDEN. We have been studying this in BLS and the Employment Training Administration. It appears that there is a large number of reasons why the gap has been widening very quickly.

Chairman FORD. In 1974 that gap was pretty close.

Mr. VAN ERDEN. It has been in the last 3 or 4 months that we have seen a real change over this normal growth period. It just appears there are a lot of reasons, and they all seem to be working in the same direction. As the Secretary said, it is the back-to-back recessions and various reasons like this causing it to grow very rapidly.

Mr. LOVELL. We are watching that, and we will let you know.

Chairman FORD. Once again, let me thank all three of you. Mr. Secretary, thank you very much.

The Chair will recognize Mr. David B. Swoap, Under Secretary for the Department of Health and Human Services, and your staff person.

Mr. Swoap, let me personally welcome you before the subcommittee today. We are very delighted to have you, and we eagerly await your testimony before the committee. I am sure that the committee members will be right back. I am sure they have many, many questions for you pertaining to the areas in which you are proposing to cut back in the fiscal 1983 budget.

Once again, we would like to welcome you before the committee and thank you very much for appearing. The Chair will recognize you at this time, and we would be happy to make your statement a part of the record. You may summarize it or read it.

STATEMENT OF HON. DAVID B. SWOAP, UNDER SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY LINDA McMAHON, ASSOCIATE COMMISSIONER FOR FAMILY ASSISTANCE, SOCIAL SECURITY ADMINISTRATION, AND MIKE SUZUKI, DEPUTY DIRECTOR, PROGRAM COORDINATION, OFFICE OF HUMAN DEVELOPMENT SERVICES

Mr. SWOAP. Thank you, Mr. Chairman. I have abbreviated my official statement so that we can get to the items that I know are of concern to the committee.

Chairman FORD. You may proceed.

Mr. SWOAP. Thank you, Mr. Chairman.

I do appreciate the opportunity to appear today before you to discuss the relevant portion of the President's budget for fiscal year 1983, which we believe builds upon the new course that we began last year. It is based upon helping those most in need, establishing a new partnership with the States, fiscal responsibility and, of course, most importantly, reform of our entitlement programs and regulatory relief.

Overall, the 1983 budget in Health and Human Services will total $274.2 billion in outlays, which is an increase of about $20 billion over 1982, an increase of approximately 8 percent. Our share of the Federal budget increased to 36 percent, so that, overall throughout the Federal Government the share that is going to the Department of Health and Human Services continues to increase. It stands at approximately 36 percent today and over the coming 4 years, even with the Reagan budget modifications, the percentage that will go to our department will continue to increase.

Our overall budget is higher than all 50 States combined, and more than the budget of any nation on Earth except the United States and the Soviet Union, and I would point out that it is approximately $56 billion higher than the defense budget.

One year ago, the cruel reality of inflation and the harm that it was inflicting prompted the American people to demand that their Government adopt some spending reforms, and today we believe that it is even more critical that we utilize discipline in Federal spending, stemming the rate of growth in many of the entitlement programs, and thus helping to reduce inflation. Most of the budget growth for fiscal year 1983 does occur in the entitlement programs, in medicaid and medicare, in AFDC and SSI, and, of course, in social security. Headstart services to disadvantaged children under the President's budget proposals will be continued, as will our emphasis on preventive medicine and health promotion, making wellness as pivotal as treating sickness.

As you know, last year 25 programs of the department were consolidated into 7 block grants, reducing over 300 pages of Federal regulations to 6. The new budget proposes to consolidate some additional programs, thereby accelerating the return of decisionmaking to the States and reducing administrative costs.

And, as you know, inherent in the overall plan of the President's New Federalism initiative, as in the economic recovery plan, is the idea that the time has come for constructive change, for a basic sorting out of Federal and State roles.

Reforms in the 1983 budget, we believe, are preliminary to a comprehensive program that will be submitted to the Congress later this year, which will give new fiscal resources to the States to assume full partnership in addressing the Nation's domestic concerns.

Mr. Chairman, let me turn to the segment of our proposals which deals with AFDC, because I think those are of critical interest to you. Let me first address the changes we made last year in the aid to families with dependent children program. I would like then to discuss our new proposals, which build on the progress that was begun last year toward improving administration of the program and retargeting benefits.

Basically, what we are trying to do is to improve the program in four essential ways, first, by requiring that income and resources that are available to a family be counted before assistance is provided. In other words, our proposal would take into account in the computation of the basic welfare benefit the income and resources that are available to the family and that should be utilized to meet their needs.

That, of course, leads to the second, target assistance to those most in need—families that do not have outside income or do not have other resources on which to rely—and we believe in even more sufficient and satisfactory ways.

Third, to strengthen work requirements and enhance the employability of recipients. The resources an individual may possess in the form of his own ability to work if he is able bodied, is one that we believe should be taken into account and utilized.

And then, of course, fourth, to improve overall administration of the program and identify some cost-effective changes that can occur and which flow from the first three. We believe that the program has been greatly improved since the Omnibus Budget Reconciliation Act of last year. For example, changes in the policy regarding the disregard of earned income insure that the AFDC program will not continue as a program which supplements, at significant and great cost, the incomes of families who have earnings adequate to meet their basic needs.

I refer to an analysis that was done by Inter-Study under contract with the Social Security Administration and published in November of 1975 which found that the cost of providing the very liberal earnings disregards under the permanent $30 and one-third disregard was 10 times greater than the savings. The study found that the disregard was "essentially * * * a specialized income transfer program directed specifically at the working AFDC recipient."

Furthermore, removing the $30 and one-third disregard after 4 months restores the original objective of providing an incentive to find work and a transition from welfare to self-support.

Mr. Chairman, when this administration took office, we found no evidence that the permanent $30 and a third disregard, which had been in effect for over a decade, achieved the goal for which it was initially established, which was to promote self-sufficiency. In fact, the percentage of working AFDC mothers has not changed at all, and the percentage of terminations due to earned income has dropped by over 300 percent.

We also found that where two families had the same earnings, one could be found eligible for assistance while the other was expected to pay into the system to provide support for others.

Finally, in 15 States, families with annual earnings over $15,000 could remain on the welfare rolls. We think that that is a significant and precise example of where some of the abuses have occurred by enabling people to remain on the rolls with relatively high income levels. We do not believe that American taxpayers want to go on supplementing the income of these families, and we do not believe the Federal Government can afford to.

Focusing, then, on our fiscal year 1983 proposals, the administration is proposing further changes which complement those that

were adopted last year and which are designed to restore the AFDC program to its original purpose as a temporary assistance program. Several proposals will assure that in determining a family's need for AFDC, all sources of income available to the family will in fact be considered.

We propose, for example, to require that parents and minor siblings living with the AFDC child be included in the assistance unit. That simple change will put an end to the current practice whereby families exclude members with income from the assistance unit in order to maximize their benefits. The incomes of certain other individuals who are an integral part of the AFDC family should also be recognized and counted, after appropriate disregards, as available to the assistance unit.

As a part of the process of defining the assistance unit, we would also propose to discontinue assistance to an employable parent or other caretaker relative when the youngest AFDC child reaches age 16. At that point, we believe the caretaker relative is sufficiently free from child care responsibilities to enable him or her to pursue employment.

Another source of income available to many AFDC recipients comes from the low-income home energy assistance program. We would require that amounts provided under that program for payment of heating or cooling costs be counted as income to the extent that a State already provides amounts for heating and cooling under its AFDC program. The duplication of benefits from various public programs has been a major factor adding to the spiraling costs of social welfare programs.

In the area of retargeting assistance, there are three proposals which serve to limit eligibility to those who are in need and who are not in a position to provide for themselves.

First, we would propose to reduce the portion of the AFDC grant for shelter and utilities for any assistance unit sharing a household with others. When individuals share a household, economies of scale result, and we believe that those economies of scale should be available to the taxpayer.

A second proposal for retargeting assistance is to eliminate payments to children when a parent is absent from the home solely by reason of active duty in the military. In these cases, the parent has not deserted the children, the family tie continues, and the support obligation remains. I fail to see any reason why the American taxpayer should be asked to pick up welfare costs for a fully employed individual who simply happens to be overseas in military service.

We also propose to limit the category of essential persons who can be included in the assistance unit to those individuals who are living with the caretaker relative and dependent child and who provide personal services required either because the caretaker relative is unable to care for himself or the child, or to enable the caretaker relative to work full-time.

There are several additional provisions in our proposals which are designed to further strengthen work requirements and improve the employability of recipients. The Administration believes that all ablebodied individuals who request assistance should be involved in some type of work related activity from the day that they apply.

We propose, for example, to require that all applicants who are able to work be required to begin a job search as soon as they apply for assistance, and that those whose search is unsuccessful should actively participate in a community work experience program, work supplementation program, or other activity in order to increase their employability through actual work experience.

Finally, we propose that sanctions be applied against recipients who voluntarily terminate their employment or reduce their hours of employment without good cause.

We have learned from results of job search programs in different parts of the country that requiring job search activities can reduce dependency on welfare. Last year, for example, in Oregon, a State with relatively high unemployment—about 11.4 percent—a mandatory job search program for AFDC applicants was successful in placing 10 to 12 percent of all applicants into jobs.

In five cities across the country with work incentive job clubs which involved AFDC recipients in sessions offering training and job search skills, 90 percent of those who completed six sessions found jobs within 23 days. In addition, 10 percent of those scheduled to participate in these sessions reported finding jobs before the very first session.

Programs in which recipients of assistance have worked in exchange for their benefits have also been successful in improving employment skills and encouraging private sector employment. In Utah, one of the pioneer states in this particular area, where participation in work experience and mandatory job search are combined, it is estimated that in 1980, 22 percent of those assigned to the State's workfare program either had their grant reduced or their case closed as a result of new job earnings.

Three States have already begun community work experience programs under the optional provision that was part of the Reconciliation Act which became effective last October. In West Virginia, where the community work experience program is targeted at unemployed parents in two parent families, there were 900 placements in the first 6 weeks of the program; 2,000 slots in West Virginia alone are expected to be filled by April. In total, we expect to have at least 20 states that will begin programs in fiscal year 1982 in the community work experience area.

Consequently, this year, for the fiscal year 1983 period, we are proposing that all states be required to establish some form of a community work experience program. We believe that states should be required to include actual work activity for employable recipients as an integral part of their AFDC programs. Again, only those that are able-bodied and able to engage in that employment would be required to participate.

As you know, the Administration is proposing to discontinue funding for the WIN program, and you might wonder why we are doing that when the WIN program has had some significant success in placing welfare recipients into jobs. However, our community work experience program and our job search proposals will allow the states the flexibility to preserve the most effective WIN activities, and it is complemented by the job training proposals which are being developed by the Department of Labor. We believe that these proposals, together with the Labor Department's $1.8

billion proposal which will earmark $1.3 billion in training specifically for unemployed youth and AFDC recipients, can better accomplish our goal of involving all able-bodied individuals in work activities and training which can lead to early employment in the private sector.

Finally, we propose a set of changes to improve administration and to further reduce administrative costs. We do propose to phase-out Federal matching for all erroneous AFDC benefit payments. The error rate tolerance will be reduced from 3 percent in 1983 to zero in 1986. In fiscal year 1980, the Federal Government spent $482 million, almost half a billion dollars, in overpayments or payments to people who were ineligible. We expect to save $234 million in fiscal year 1983 alone in misspent Federal dollars.

The second proposal establishes a consolidated grant to finance the States' cost of administering the AFDC, medicaid, and food stamp programs. This will eliminate expensive cost allocation procedures now necessary at the State and Federal level.

Mr. Chairman, this administration entered office with a basic commitment to establish the AFDC program as a well-run temporary assistance program which moves individuals and families from welfare dependency to employment. For too long, the American taxpayer has worked to supplement the incomes of individuals whose own incomes are adequate to meet their basic needs. For too long, the American taxpayer, we believe, has supported individuals who are able to work but who have preferred dependency. We believe that the 1981 changes, complemented by this year's proposals, will bring us much closer to fulfilling our basic commitment.

In the field of low-income energy assistance, we are also proposing in a separate bill a $1.3 billion block grant combining the low-income home energy assistance program with the emergency assistance program, which currently, as you know, is provided under title IV-A of the Social Security Act. Legislative changes we will be recommending will provide States with greater flexibility to target these funds to the neediest households more efficiently.

In the child support enforcement program, we will be suggesting some modifications which we believe will enhance child support collections and increase the cost-effectiveness of that program. In the supplemental security income program, we also have a series of relatively minor changes which will relate SSI benefits more closely to an individual's income and circumstances, tighten the eligibility requirements for disability benefits in the SSI program, and simplify program administration, and I would be happy to go into the details of those during the question and answer period, if you would like, Mr. Chairman.

In the field of social services and child welfare, which I know is an area of concern to this committee, the social services block grant, under title XX of the Social Security Act, which was enacted as a part of the Omnibus Budget Reconciliation Act of 1981, was implemented in the current fiscal year. This block grant program was designed to provide States with greater increased flexibility in determining priorities among the needs of their population and in allocating resources among those priorities.

The level of $1.974 billion is requested for the social services block grant to continue support for the variety of social services au-

thorized by this program. These include but are not limited to child and adult day-care services, protective services, foster care, transportation, family planning, training, information and referral, counseling, delivery of meals, and health support.

In addition, a State may under our proposal use a portion of its allocation to support work incentive programs, including related child care and supportive services.

However, we expect that in fiscal year 1983, as in fiscal year 1982, the States will be in a position to use the greater latitude in the use of these funds to develop more cost efficient and effective social services delivery systems.

As a part of this same effort, we are proposing, as you know, the consolidation of the major Federal children's services authorities under title IV of the Social Security Act, which are child welfare services and training, foster care and adoption assistance. The authorizing legislation for this block grant is now being developed and we believe we have crafted a program which reduces the Federal burden on the States while retaining the essential protections for children in foster care and for those receiving child welfare services that are embodied in the Adoption Assistance and Child Welfare Act of 1980.

Under our proposal, States would provide assurances that they would put into place the essential protections and systems which were included as a part of that milestone legislation. These assurances would include a one-time Statewide inventory of children in foster care, a Statewide information system, a case review system with a case plan for each child to be reviewed periodically, and the services to reunite a child with his or her family, wherever possible.

A level of $380 million is requested for the new child welfare block grant authority, which represents approximately 82 percent of the comparable fiscal year 1982 level for the activities proposed for consolidation in the appropriation.

Mr. Chairman, these are the major proposals which accompany our fiscal year 1983 budget recommendation falling under your committee's jurisdiction. In short, we believe that the most important thing facing us is that we come to grips with the continued increases in the entitlement area. Entitlement spending represents about 95 percent of the entire budget of the Department of Health and Human Services. We believe that our Nation can no longer tolerate the inaction in this crucial area of social policy, and unless significant steps are taken with regard to bringing entitlement spending under control, we soon may be hard pressed to afford even the most rudimentary support for those who are truly dependent upon it.

I look forward to responding to any questions you may have.

[The prepared statement follows:]

STATEMENT OF DAVID B. SWOAP, UNDER SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear today before the House Committee on Ways and Means Subcommittee on Public Assistance and Unemployment Compensation, to discuss relevant portions of the President's Budget for fiscal year 1983. With me today is Linda McMahon, Associate Commissioner for Family Assistance of the Social Security Administration.

The budget we present for fiscal year 1983 builds upon the new course we began last year: it is based on helping those most in need, a new partnership with the states, fiscal responsibility, reform of our entitlement programs and regulatory relief.

We will maintain our leadership role in health research and in disease prevention and control. We will confront the hard facts of health care cost inflation.

Overall, the 1983 budget for Health and Human Services will total $274.2 billion in outlays, an increase of $20 billion or 8 percent over 1982. Our share of the federal budget increased to 36 percent—still more than all 50 States combined and more than the budget of any nation on earth except the United States and the Soviet Union, and $56 billion more than the Defense budget.

One year ago, the cruel reality of inflation and the harm it was inflicting prompted the American people to demand that their Government adopt spending reforms. Today, it is even more imperative that we utilize discipline in federal spending, stemming the rate of growth in HHS programs, thus helping reduce inflation.

Most of the budget growth for fiscal year 1983 occurs in entitlement programs—Medicaid and Medicare, AFDC and SSI, and, of course, Social Security.

Social Security benefits will continue at current levels with full cost-of-living increases; the budget makes no major recommendations concerning Social Security benefits or financing, pending the report of the National Commission on Social Security reform.

Head Start services to disadvantaged children will be continued, as will our emphasis on preventive medicine and health promotion, making "wellness" as pivotal as treating sickness.

Last year, 25 programs of this department were consolidated into seven Block Grants, reducing over 300 pages of federal regulations to six. The new budget proposed to consolidate additional programs, thereby accelerating the return of decision-making to the states and reducing administrative costs.

Inherent in the President's Federalism initiative, as in the economic Recovery Plan, is the idea that the time has come for constructive change, for a "sorting out" of federal and state roles. The reforms of the 1983 Budget are preliminary to a comprehensive program, which will be submitted to the Congress this spring, giving new fiscal resources to the states to assume full partnership in addressing the nation's domestic concerns.

Mr. Chairman, before getting into specifics of the programs that I am here to talk about, I would like to take a minute to mention our competition initiative. I firmly believe that part of the solution to moderating various health care costs lies in increasing individuals' participation in decisions about their health care and in increasing the opportunity for competitive forces to operate in the health care industry. To that end last spring I established a competition task force within HHS to study proposals to encourage consumers to make more cost conscious health care choices and to encourage the system to promote diversity while avoiding overregulation in the medical sector.

Once our competition initiative is completed and implemented I believe we will have some positive mechanisms to improve economic incentives among consumers, insurers and providers for more cost effective health care—and mechanisms that will permit the powerful influence of consumer choice to foster a healthy balance of competition in the health care market—a market that has suffered badly from the loss of effective consumer participation.

AFDC

I would first like to briefly address the changes we made last year to the Aid to Families with Dependent Children program. I would then like to discuss our new proposals which build on the progress begun last year towards improving administration of the program and retargeting benefits.

The Omnibus Budget Reconciliation Act of 1981 required that far-reaching changes be made in the AFDC program. These changes were proposed by the Administration with two major goals in mind: To recognize the severe budgetary constraints facing government at all levels—Federal, State, and local; and to restore the AFDC program to its rightful place as a program of last resort for those who, through no fault of their own, must rely on it for limited periods of time.

Our carefully planned proposals were intended to improve the program in four ways: By requiring that income and resources available to a family be counted before assistance is provided; by targeting assistance to those most in need; by strengthening work requirements and enhancing the employability of recipients; and by improving administration of the program.

We believe that the program has, in fact, been greatly improved. For example, changes in the policy regarding the disregard of earned income ensure that the AFDC program will not continue as a program which supplements, at great cost, the incomes of families who have earnings adequate to meet their basic needs. An analysis, conducted by Inter-Study under contract with the Social Security Administration, and published in November of 1975, found that the costs of the permanent $30 and one-third disregard were ten times greater than the savings. The Study found that the disregard was "essentially . . . a specialized income transfer program directed specifically at the working AFDC recipient."

Furthermore, removing the $30 plus ⅓ disregard after 4 months restores the original objective of providing an incentive to find work and a transition from welfare to self support.

Mr. Chairman, when this Administration took office, we found no evidence that the permanent $30 and ⅓ disregard earned income disregard which has been in effect for over a decade achieved the goal of promoting self-sufficiency. In fact, the percentage of working AFDC mothers has not changed at all and the percentage of terminations due to earned income has dropped over 300 percent. We also found that where two families had the same earnings, one could be found eligible for assistance while the other was expected to pay into the system to provide support for others. Finally, in 15 States, families with annual earnings over $15,000 could remain on the welfare rolls. We do not believe that American taxpayers want to go on supplementing the income of these families and we do not believe the Federal Government can afford to.

In the area of work activity, States now have the ability to design work programs that will promote the employability of recipients and generate movement of able-bodied recipients from welfare to job-based self-sufficiency. States can establish:

Community Work Experience Programs, in which recipients engage in on-the-job training or actual work experience that will improve their employability, provide a return to society for the welfare grant, and deter those who have an alternative from relying on assistance: Work Supplementation Programs, under which States can use AFDC funds to make subsidized jobs available to recipients as an alternative to AFDC.

The 1981 changes also brought significant improvements in the area of program administration. For example, States are now required to establish AFDC eligibility and benefit amount based on a system which combines monthly reporting by recipients with retrospective accounting; States are required to recover all overpayments; and there is no limit on the number of cases in which vendor payments can be made, and recipients may request them on their behalf.

All of these changes should substantially reduce errors and improve program administration.

FISCAL YEAR 1983 PROPOSALS

This year the Administration is proposing further changes which complement those adopted last year and which are designed to restore the AFDC program to its original purpose as a temporary assistance program.

Several proposals will ensure that, in determining a family's need for AFDC, all sources of income available to the family will be considered. We propose to require that parents and minor siblings living with the AFDC child be included in the assistance unit. This will put an end to the current practice whereby families exclude members with income from the assistance unit in order to maximize benefits. The incomes of certain other individuals who are an integral part of the AFDC family should also be recognized and counted (after appropriate disregards) as available to the assistance unit. Specifically, these individuals would include: all unrelated adults sharing a household with an AFDC child and his parent; and parents of a teenage mother who is living with them and receiving AFDC.

As part of the process of defining the assistance unit, we also propose to discontinue assistance to an employable parent or other caretaker relative when the youngest AFDC child reaches age 16. At that point, we believe the caretaker relative is sufficiently free from childcare responsibilities to enable him or her to pursue employment.

Another source of income available to many AFDC recipients comes from the Low-Income Home Energy Assistance Program. We would require that amounts provided under that program for payment of heating or cooling costs be counted as income to the extent a States already provides amount for heating and cooling under its AFDC program. The duplication of benefits from various public programs has been a major factor adding to the spiraling costs of social welfare programs.

In the area of retargeting assistance, there are three proposals which serve to limit eligibility to those who are not in need and who are not in a position to provide for themselves.

First, we propose to reduce the portion of the AFDC grant for shelter and utilities for any assistance unit sharing a household with others. When individuals share a household, economies of scale result. Our proposal seeks to recognize that fact, thereby eliminating excess benefits to recipients who share a household with other individuals.

Our second proposal for retargeting assistance is to eliminate payments to children whose parent is absent from the home solely by reason of active duty in the military. In these cases, the parent has not deserted the children, the family tie continues, and the support obligation remains. It is not the government's role to step in merely because a parent is temporarily out of the home due to his occupation.

We also propose to limit the category of essential persons who can be included in the assistance unit in order to receive AFDC. Currently, AFDC payments may include the needs of various individuals who would not be eligible except that they are considered to be "essential to the well-being of the AFDC children or caretaker relative." We would only permit inclusion of those individuals who are living with the caretaker relative and dependent child and who provide personal services required: because the caretaker relative is unable to care for himself or the child; or to enable the caretaker relative to work full-time.

There are several additional provisions designed to further strengthen work requirements and improve the employability of recipients. The Administration believe that all able-bodied individuals who request assistance should be involved in some type of work-related activity from the day they apply. We propose:

To require that all applicants who are able to work be required to begin a job search as soon as they apply for assistance: that those whose search is unsuccessful should actively participate in a community work experience program, work supplementation program or other activity in order to increase their employability through actual work experience; that recipients engage in job search activity at periodic intervals as determined by the State to ensure that placement in private-sector employment remains the foremost goal for those individuals; that sanctions be applied against recipients who voluntarily terminate their employment or reduce their hours of employment without good cause.

We have learned from results of job search programs in different parts of the country that requiring job search activities can reduce dependency on welfare. Last year in Oregon, a State with high unemployment, a mandatory job-search program for AFDC applicants was successful in placing 10 to 12 percent of all applicants in jobs. In five cities across the country with WIN job clubs, which involved AFDC recipients in sessions offering training in job search skills, 90 percent of those who completed 6 sessions found jobs within 23 days. In addition, 10 percent of those scheduled to participate in these sessions reported finding jobs before the first session.

Programs in which recipients of assistance have worked in exchange for their benefits have also been successful in improving employment skills and encouraging private sector employment. In Utah, where participation in work experience and mandatory job search are combined, it is estimated that in 1980, 22 percent of those assigned to the State's workfare program either had their grant reduced or their case closed as a result of new job earnings. Three States have already began Community Work Experience Programs under the optional provision enacted last year. In West Virginia, where the CWEP program is targeted at unemployed parents in two-parent families, there were 900 placements in the first six weeks of the program. Two thousand slots are expected to be filled by April. In total, we expect at least 20 States to begin programs in fiscal year 1982.

Consequently, this year we are proposing that all States be required to establish community work experience programs. We believe that States should be required to include actual work activity for employable recipients as an integral part of their AFDC programs.

As you know, the Administration is proposing to discontinue funding of the WIN program. However, our CWEP and Job Search proposals will allow States the flexibility to preserve the most effective WIN activities. These proposals, together with the Labor Department's $1.8 billion Job Training proposal which will earmark $1.3 billion in training specifically for unemployed youth and AFDC recipients, can better accomplish our goal of involving all able-bodied individuals in work activities and training which can lead to early employment in the private sector.

Finally, we propose a set of changes to improve administration and further reduce administrative costs. Two proposals are designed to offer strong incentives for States

to tighten administration of the program. The first of these is to phase out Federal matching for all erroneous AFDC benefit payments. The error rate tolerance would be reduced from 3 percent in 1983 to 0 percent in 1986. Under current law, there is no effective incentive for States to eliminate errors since the Federal government matches those payments at rates from 50 to nearly 80 percent. In fiscal year 1980, the Federal government spent $482 million in overpayments or payments to people who were ineligible. We expect to save $234 million in fiscal year 1983 in misspent Federal dollars.

The second proposal establishes a consolidated grant to finance the State's costs of administering the AFDC, Medicaid, and Food Stamp programs. The total grant would be 95 percent of the fiscal year 1982 ongoing administration costs, exclusive of fraud and abuse activities. This will eliminate expensive cost allocation procedures now necessary at the State and Federal level. We believe that public acceptance of and support for assistance programs will be enhanced if we can ensure that administrative costs are kept to a minimum, that only eligible individuals receive assistance, and that they receive only the amounts to which they are entitled.

Other proposals to improve administration include requiring States to round their need standard and payment amount to the next lower whole dollar and prohibiting payment of benefits for any period prior to the date on which a family seeks assistance by filing an application. These proposals make good sense administratively and will reduce costs.

Mr. Chairman, this Administration entered office with a commitment to establish the AFDC program as a well-run temporary assistance program which moves individuals and families from welfare dependency to employment. For too long, the American taxpayer has worked to supplement the incomes of individuals whose own incomes are adequate to meet their basic needs. For too long, the American taxpayer has supported individuals who are able to work but preferred dependency. We believe that the 1981 changes, complemented by this year's proposals, will bring us much closer to fulfilling this commitment.

LOW INCOME ENERGY ASSISTANCE PROGRAM

We are also proposing in a separate bill a $1.3 billion block grant combining the Low Income Home Energy Assistance Block Grant with Emergency Assistance provided under Title IV-A of the Social Security Act. The legislative changes we will be recommending will provide States with even greater flexibility to target these funds to the neediest households more efficiently.

Our legislative proposal will include elimination of restrictive Federal requirements which prevent coordination of emergency assistance with energy assistance. States could eliminate duplicative administrative mechanisms and criteria now required for the two programs. Reporting requirements, assurances and compliance procedures also would be reduced. Federal administrative costs would be reduced by about $1 million.

CHILD SUPPORT ENFORCEMENT PROGRAM

The Child Support Enforcement program assists States in enforcing the support obligations of absent parents to their children, locating absent parents, establishing paternity and obtaining child support. These services are provided to AFDC families and are available upon request to families who are not recipients of public assistance in recognition of the cost avoidance or deterrent value of such services. The Federal government presently pays the great preponderance of the administrative costs of the program and provides a wide range of services and technical assistance to the States.

A major legislative initiative is being proposed to restructure the financing of the Child Support Enforcement Program. While significant strides have been made since enactment of the basic authorizing legislation in 1975, there is ample evidence to demonstrate that the cost-effectiveness and efficiency of State and local operations can and should be improved.

On a nationwide basis, there is a still untapped potential to increase child support collections. Program effectiveness varies widely from State to State. Costs are often excessive in relation to support collection. The present financing structure itself is at the heart of the problem; it ensures sizable revenues to States and localities even for marginal performance and gives little incentive for the adoption of more cost-effective methods of operation. Let me cite one illustration: a State can now spend more to operate its child support program than it collects—and still make "a profit" because of the current financing structure.

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From a budget perspective, the net result is a deficit to be borne by the Federal government, which under current law will be $191 million in fiscal year 1983. The longer term picture is even more ominous. While the Child Support Enforcement Program is cost-effective in some States at the present time, an analysis of national data indicates that expenditures have increased at a much faster rate than collections. If current trends continue unchecked, total program costs will outstrip total collections on behalf of AFDC recipients in a few short years. Congressional concern about such an occurrence was manifest recently in hearings before the House Committee on Appropriations.

Our restructuring proposal will deal with this situation by establishing a clear link between financing and program performance, and by giving tangible recognition to superior performance based on increasing child support collections and improving cost effectiveness. The tools for strengthening the program are clearly at hand. We need to encourage and stimulate the broader application of proven management techniques and beneficial State practices already in everyday use in many States. Although we believe the program is essentially sound, we believe these proposals will make significant improvements in the program.

Another Child Support Enforcement legislative proposal seeks to change the method by which States recover administrative costs incurred for this provision of services to custodial parents who are not recipients of AFDC. Last year, the Congress enacted a provision on this subject as part of the Omnibus Reconciliation Act. By general concensus, the law as it stands—while well-intentioned—is administratively expensive, cumbersome, and burdensome on the State Child Support Enforcement Programs. In its place, we are proposing legislation that would require states to recover the administrative costs of providing services to non-AFDC cases. The recovery of cost would be on a standardized basis but limited to no more than 10% of the collection. States would continue to have the option of recovering the cost from absent parents.

Finally, under current law, there are a number of relatively minor statutory restrictions which make the collection of certain child support payments unnecessarily difficult. We are proposing a series of provisions to overcome these restrictions and, in the process, increasing State flexibility in the administration of their Child Support programs.

SOCIAL SERVICES AND CHILD WELFARE

The fiscal year 1983 budget for social services activities continues the effort begun in fiscal year 1982 to increase State flexibility in the programming and administration of program resources and to simplify Federal administrative and oversight responsibilities.

The Social Services Block Grant under title XX of the Social Security Act, enacted as part of the Omnibus Budget Reconciliation Act of 1981, was implemented in fiscal year 1982. This block grant program was designed to provide States with greatly increased flexibility in determining priorities among the needs of their population and in allocating resources among those priorities. Interim final regulations for this and the other six HHS block grants were published on October 1, 1981.

A level of $1,974,126,000 is requested for the Social Services Block Grant to continue support for a variety of social services at the State level. The amount requested represents approximately 82 percent of the amounts States received in fiscal year 1982. Services which a State may choose to provide may include, but are not limited to: child and adult day care services, protective services, foster care, transportation, family planning, training, information and referral, counseling, delivery of meals, and health support. In addition, a State may use a portion of its allocation to support work incentive programs, including related child care and supportive services.

Since we are less then halfway through fiscal year 1982, the Department does not yet have available specific data on use of the Social Services Block Grant funds by the States. We hope to have preliminary data later this spring. However, we expect that in fiscal year 1983, as in fiscal year 1982, the States will be in a position to use the greater latitude available in this program to develop more cost efficient and effective social services delivery systems.

As part of this same effort to increase State flexibility in management of social services programs, we are proposing this year the consolidation of the major Federal children's services authorities under Title IV of the Social Security Act: Child Welfare Services and Training, Foster Care and Adoption Assistance. The proposed authorizing legislation for this block grant is now being developed. The proposal is not yet final, but we believe we have crafted a program which reduces the Federal burden on the States, while at the same time retaining the essential protections for

children in foster care and for those receiving child welfare services that are embodied in the Adoption Assistance and Child Welfare Act of 1980.

Under the proposal, States would provide assurances that they would put in place these essential systems, including: A one-time statewide inventory of children in foster care; a statewide information system; a case review system with a case plan for each child, to be reviewed periodically; and services to reunite a child with his or her family wherever possible.

A level of $380,120,000 is requested for the new Child Welfare Block Grant authority. The amount requested represents 82 percent of the comparable fiscal year 1982 level for the activities proposed for consolidation in the appropriation. This request is based on the assumption that Congress will enact the required enabling legislation prior to the enactment of fiscal year 1983 appropriations.

In regard to the WIN program, we are proposing to allow States in fiscal year 1983 to fund work incentive programs, including child care and supportive services, under the Social Sevices Block Grant. We have proposed appropriations language to this effect. No funds are proposed for a separate WIN program in fiscal year 1983. Eligibility changes in the AFDC program enacted in the Omnibus Budget Reconcilation Act of 1981 and proposed in the fiscal year 1983 budget, in particular mandatory community work experience programs, minimize the need for a separate WIN program.

We believe that the overall effect of these changes in the social services programs will be to allow States to maximize resources and administer programs within their jurisdictions to best respond to circumstances and priorities within their states.

SSI

Let me now turn to proposals relating to the SSI program. In developing the 1983 budget, every open-ended entitlement program was closely examined for possible reforms. In the SSI program, a number of relatively minor changes were identified. These changes fall into three categories: Relating SSI benefits more closely to an individual's income and circumstances; tightening the eligiblity requirements for disability benefits in the SSI program; and simplifying program administration.

Included in the first category of relating benefits more closely to need are the following changes: A proposal to end for future beneficiaries the special advantage that current SSI recipients with other income received as a result of the present provision for disregarding up to $20 a month of any income in the calculation of SSI monthly payments. The present provision helps those with some income other than SSI—not those who are wholly reliant on SSI. The SSI benefits to persons receiving only SSI will not be reduced by this change. Those who now benefit from the exclusion will continue to do so as long as they remain continuously eligible. This proposal will save about $15 million in fiscal year 1983;

A proposal to prorate the first month's benefit to reflect the actual date of application or first elibility (if later). This change will eliminate payments for that part of a month preceding the person's benefit eligibility and application for payments and will save $40 million in fiscal year 1983; and

A proposal generally to bar SSI eligibility for newly arrived aliens whose entry into the United States is sponsored by an organization which pledged to provide any necessary support for the alien unless the Secretary finds that the organization is unable to provide that support. This proposal is intended to serve as a companion to the present provision which applies primarily to families—as opposed to organizations—who sponsor the immigration of relatives. A similar proposal is being offered for the AFCC program.

We are presenting two proposals which would help ensure that SSI disability benefits are paid only to recipients who are totally and permanently disabled. They are: Changing the definition of "disability" to require that an individual's impairment must be expected to be disabling for at least 24 months, rather than the current 12 months. This change will save $45 million in fiscal year 1983; and giving greater consideration to objectively-determined medical factors in determining whether or not an individual is disabled rather than nonmedical factors (such as age, education, and work experience) which are much more subjective and result in inconsistent and inaccurate decisions. This change will save $75 million in fiscal year 1983.

In order to simplify program administration, we offer: A proposal to round the maximum monthly SSI payment and actual benefit amount to the next lower dollar. Title II Social Security benefits are already rounded to the next lower dollar under a provision of the Omnibus Budget Reconciliation Act of 1981. SSA is taking administrative steps to assure that final payment amounts—after taking account of

individual income—will also be in whole dollars. This proposal will save $20 million in fiscal year 1983.

In order to improve the collection of debts owed to the Federal Government, we offer: A proposal to authorize the recovery of overpayments under one program administered by the Social Security Administration from benefits payable to the overpaid person under any other SSA-administered program. Under this proposal, overpayments in the SSI, Social Security, or Black Lung Part B program that were uncollectible under the program in question could be collected by withholding payments under any of the other programs. The major savings from this proposal—about $16 million in fiscal year 1983—is expected to occur in the recovery of SSI overpayments from Social Security benefits.

In addition, we want to present several technical proposals which merit your attention: A modification to the provision for retrospective monthly accounting for SSI, which was enacted as part of the Omnibus Budget Reconciliation Act of 1981. That provision has the unintended effect of giving SSI recipients who also receive Social Security benefits an extra increase for the months of July and August as a result of the regular July cost-of-living increases. SSI recipients would not receive the proper payment amount until September.

Last fall, and again this month, the House adopted a proposal which, in effect, repealed the whole system of retrospective accounting for SSI that was included in last year's Reconciliation Act. That proposal, which has never been acted upon by the Senate is now included in H.R. 4717, which will be conferenced shortly. We propose, instead, a less far-reaching modification which will assure smooth coordination of the cost-of-living increases in Social Security and SSI while retaining the overall advantages of the retrospective accounting system. This proposal would restore the projected savings of $20 million in fiscal year 1982 and $40 million in fiscal year 1983.

We propose a change which would remove an unintended limitation in the applicability of the provision in the Omnibus Budget Reconciliation Act of 1981 which dealt with unnegotiated SSI checks. This amendment would make clear that the procedures of notice by the Department of the Treasury and the follow-up investigation by the Secretary of Health and Human Services apply in the case of all checks issued under the SSI program that remain uncashed for more than 180 days, whether or not State supplementary payments are included in the checks. In addition, the technical amendment relating to checks containing only mandatory State supplementation which was recently passed by the House as part of H.R. 4717 is included in the technical section of our proposed bill.

We are proposing a four year phase out of the "hold-harmless" provision. This change affects only Hawaii and Wisconsin and is necessary because, as a result of changes adopted in the late 70's, the "hold-harmless" provision did not phase itself out as a result of increases in the Federal SSI benefit as originally intended. The first stage of this change, affecting the fiscal year 1982 "hold-harmless" amounts, is reflected in the current continuing resolution.

We are also proposing the elimination of the mandatory pass-through provision. The current pass-through requirement, in effect since July 1977, mandates continuing State fiscal participation in the SSI program. By repealing the pass-through requirement, our proposal would return to the States the basic freedom to decide how much of their revenues would be spent on supplementation programs. Mandatory pass-through restricted that freedom by establishing minimum supplementation and expenditure levels below which the States are not free to go without forfeiting Federal funds under the Medicaid program.

Finally, to protect the food stamp cash-out status of California and Wisconsin in light of the foregoing changes, we are modifying the cash-out requirements. States would be permitted to retain cash-out status so long as they agree to provide a supplement equivalent to the value of food stamps that an individual or a couple with only Federal SSI income could receive.

The Subcommittee has also requested our views on a number of other legislative proposals before this Subcommittee. Since we just received your request last Friday, we have not had an opportunity to review these proposals and would like to submit our comments for the record.

Mr. Chairman, these are the major proposals accompanying the fiscal year 1983 budget and falling under your Subcommittee's jurisdiction. The important thing overall is that we bring reckless Federal spending under control. Ninety five percent of the HHS Budget is controlled by entitlement programs.

We believe that our nation can no longer tolerate inaction in the crucial area of social policy. Unless significant steps are taken, our nation may soon be hard-

pressed to afford even the most rudimentary support for those who are truly dependent on it.

I will be happy to answer any questions that you or Members of your Subcommittee may have.

Chairman FORD. Thank you very much, Mr. Secretary.

I guess for the past 2 days we have seen newspaper reports about how concerned the President is over his image. It seems that a lot of people think the President does not care about the poor and the truly needy. It seems to be bothering the President to a certain degree.

Do you think your testimony today in the area of vital, social, needed programs will help the image of our President at a time when this morning we read reports that even his White House staff has started staging certain events to send a signal to the American people that he is concerned and that he is willing to express that concern for the poor and the needy in this country?

Mr. SWOAP. Mr. Chairman, I think the response to that question should point directly not only to the President's statements in recent days but to his record. If you will examine his record, both as President of the United States and as Governor of the State of California, you will find that he does have a deep and overriding and basic concern for meeting the needs of individuals who are in legitimate need in this country.

In California, as a part of welfare reform, as you know we embarked upon a fairly comprehensive program of welfare reform in that State, which paralleled many of the things we are trying to do here today at the Federal level. One of the things that was often overlooked as a part of that welfare reform record, and that was often overlooked by our critics, was the fact that we increased grants. We increased grants for people on AFDC for the persons at the lowest end of the income spectrum. We put in a one-time increase of 26 percent and an annual cost-of-living increase that then raised AFDC benefits to 41 percent above where they were when the governor took office.

California became one of only two States in the country that has an annual cost-of-living increase in its welfare grants. And I would say to you——

Chairman FORD. I am from Tennessee and I really want to talk about Mr. Reagan as President, not Mr. Reagan as Governor of California. I do not want in any way to be critical of his administration as Governor of the State of California, but there is a different side to the story that you are telling the subcommittee today.

So I think we can all talk about his image and his proposals that are before this subcommittee and this Congress at the present time, and I would like to sort of stay in tune and in touch with what we are talking about and what is before us today.

Mr. SWOAP. All right. Let us turn, then, to his record as President and to what his proposals are as the Chief Executive.

As you can see, on these particular statistics, which examine the relationship between Federal expenditures for national defense, which is often used as an argument on the other side of the equation, and those for income security, medicare and medicaid, in 1955 those for income security stood at 13 percent. By 1965 it went to 21

percent, by 1975, 39 percent, and under the Reagan budget they stand at 40 percent.

So it is even higher, the percentage for income security, medicare and medicaid, is even higher under the proposed budget of the President than in the 1975 period, and as I indicated earlier, it will still continue to go up.

Much of this has been fueled by the increase in entitlement spending, as I have indicated. As you see, entitlement spending will continue to go up. In 1981 the total budget for HHS stood at $229.8 billion. In 1982 it went to $253.9 billion, and in 1983 it will increase—not decrease—it will increase to $274.2 billion. In 1983, entitlement programs will constitute 94 percent of total HHS outlays.

Focusing on Federal income assistance to the poor, which is the precise area, as you indicated, of concern to this committee, looking at AFDC, SSI, food stamps, nutrition assistance, medicaid, housing subsidies, earned income tax credits and low-income home energy assistance, you will find there continues to be a major upward trend.

Chairman FORD. Tell us about the AFDC program. How much has it grown within the last 5 years? We have talked about medicare and social security and have seen the increase in the Health and Human Services budget. Talk about AFDC for a minute. How much have we increased that budget within the last 5 years?

Ms. MCMAHON. We can provide the numbers from 1975 for the record, but one thing I will point out is that the estimate for fiscal year 1981 of AFDC costs was $7.1 billion and the estimate for fiscal year 1982, in spite of our changes, is $7 billion. So although there is a slight drop, with all the changes made, the program continues to maintain about the same spending level. It has been growing and we will definitely give you those figures.

[The information follows:]

Federal share of expenditures for AFDC assistance payment

	Billions
1975	$4.488
1976	6.411
1977	5.443
1978	5.492
1979	5.620
1980	6.444
1981	7.109
1982 (estimated)	6.973

Chairman FORD. What about fiscal year 1983? I saw a 5-percent increase in fiscal 1983 in the total Health and Human Services on that chart. Put it back up there. When you talk about AFDC, I want to know where there has been a 5-percent increase in AFDC.

Mr. SWOAP. Well, there is not an increase in AFDC.

Chairman FORD. There is not an increase in AFDC?

Mr. SWOAP. We are proposing a reduction of approximately $1 billion in total spending. Now it is important for me to know, when you are asking your question, Mr. Chairman, are you asking about what would have otherwise been if we had not proposed our cuts?

Chairman FORD. You told me there was an increase. I am just asking about AFDC. And I am sure there was an increase in the total, and what about AFDC?

Mr. SWOAP. All right. In 1981, total spending for AFDC in fiscal year 1981 was approximately $7 billion. And in 1982, under the present law, it would be $7.1 billion, specifically $7.119 billion. And in 1983 it would be reduced to $6.833 billion. So it is down roughly by $300 million between fiscal year 1982 and 1983.

Chairman FORD. So it is actually down; is that correct?

Mr. SWOAP. Yes. But the important thing that needs to be underscored, and the thing that is so often lost in the dialogue, Mr. Chairman, is the fact that when cuts of this kind are announced and when headlines read that X numbers of people are going to be removed from the welfare rolls, the automatic assumption is that these are people in need, that these are people who continue to have needs that will no longer be met.

In fact, if you look at the character of the kinds of changes that we made, both in 1982 and now for fiscal year 1983, they are targeted to people who do have outside resources, who do have resources on which they should be required to rely. And if you simply go down the list of the 1982 changes or you go down the list of the 1983 changes, you will find that they are those kinds of targeted reductions.

So for example, as I mentioned in my opening statement, we do not think it is unreasonable to require a parent in the military service to support his family and not to ask the taxpayer to do so. We do not think it is unreasonable, if a family is living with an unrelated adult who may be earning $30,000 or $40,000 a year, to require that that income be used to support the family.

Chairman FORD. Can you state how many people are living like that? How many people are living in a household with a $30,000 a year income?

Mr. SWOAP. There is a significant number, Mr. Chairman, that are living in families with sufficient income that they would no longer qualify for welfare. And if you look at the impact tables, you will see that a major portion of our savings this year derived from that particular proposal.

Ms. MCMAHON. Could I just add that although we are still getting information about the changes, we did learn that in Oklahoma they found a number of families with step-parents that actually had earnings over the $70,000 level.

Chairman FORD. A number of families?

Ms. MCMAHON. So there are families that——

Chairman FORD. How many?

Ms. MCMAHON. I do not have a specific number. That is the point. We are just beginning to get information on the changes, so we do not have all those numbers. But we are finding that there are families that have significant incomes that have been getting AFDC payments.

Chairman FORD. We would like to have that information before this subcommittee. The administration, as we have heard so many stories and anecdotes about all these people out there doing all these bad things, and we would like to be privy to that information. Hopefully your department will supply us with the necessary information.

Mr. SWOAP. Yes, sir, we will. We will provide that for the record.

[The information follows:]

We are unable to provide at this time uniform national data on the number of families that were receiving AFDC and have "significant incomes." However, one State, Oklahoma, has provided us with specific information on families with stepparents. On October 1, 1981 there were 1,812 stepparent cases. As of February 1, 1981 there were 555 stepparent cases, a reduction of 1,257 cases. In addition, when reviewing cases for the stepparent provision of the Social Welfare Amendments of 1981, the State found stepparents with income that ranged up to $70,000 per year.

Chairman FORD. Tell us about the increase or reduction in the title XX programs. Is there a 5-percent increase in the title XX programs? Tell us about the size of title XX for fiscal years 1982 and 1983.

Mr. SWOAP. All right. Moving from 1982 to 1983, there will be a reduction of approximately $426 million, I am told, going to——

Chairman FORD. What about fiscal year 1981 to fiscal year 1982? What was the increase then?

Mr. SWOAP. In 1981 the number was at $2.991 billion and in——

Chairman FORD. An increase?

Mr. SWOAP. That was the level.

Chairman FORD. The spending level, $2.9 billion?

Mr. SWOAP. That is correct. I am giving you the progression and you can see that it is a decrease, not an increase. In fiscal year 1982——

Chairman FORD. Your charts indicated that it was an increase in this area.

Mr. SWOAP. No, they did not, Mr. Chairman. They indicated that there was an increase in the overall entitlement programs, but they did not say that there was an increase in title XX.

Chairman FORD. That is correct.

Mr. SWOAP. Now I think as well, we should point out for the record that, returning to AFDC just for a moment, many of the States, I think about 27 States, have increased their need standard since January 1981, and that is precisely the kind of change that we are hoping will occur, so that States will be able to redirect the resources to the people who do not have outside income, to the people who are forced to rely solely upon public assistance for their means of support.

And as I say, 27 States already have raised their need standard; four more are considering doing so, and we think that that is a significant and important improvement in the AFDC program.

I might identify for the record these people accompanying me. Linda McMahon on my right is the Associate Commissioner of Social Security for Family Assistance, and Mike Suzuki on my left is with the Office of Human Development Services, which handles title XX and child welfare services and a number of those programs.

Chairman FORD. How many persons currently receive AFDC assistance and what has been the pattern of the AFDC caseload growth or the decline nationally over the last 5 years?

Mr. SWOAP. In terms of the number of recipients, in January of 1981 it stood at 11.1 million individuals. In January 1982, it stood at 10.5 million. So there has been a slight reduction, even in the face of the recession, I would point out. In January of 1981, 3.78 million families and 3.58 million in January of 1982. Roughly, I believe you can count about 3.2 individuals per family in AFDC.

Chairman FORD. In how many States is the AFDC payment to a three-person family with no earnings less than poverty?

Mr. SWOAP. May we supply that for the record?

[The information follows:]

The following table provides the number of States with AFDC payments to a family with no other income, which exceed the non-farm poverty level, two-thirds of the poverty level, and one-half of poverty level. Data are provided with regard to two and four person families as current AFDC payments for three person families are not available at this time.

NUMBER OF STATES WHOSE AFDC PAYMENT EXCEEDS—

	Poverty level	⅔ of poverty level	½ of poverty level
Size of family:			
2	0	7	23
4	0	5	21

Chairman FORD. Please do.

In how many States is AFDC payments less than two-thirds of poverty? When you are supplying that answer, give us the figure on two-thirds of poverty, and less than 50 percent of the poverty level. We would like to have that information.

Is the gap between AFDC benefits and the poverty level growing wider?

Mr. SWOAP. I do not believe that it is. Mr. Chairman, basically, for this fundamental reason. I think you need to focus on other programs than simply AFDC because one of the phenomena that we have seen in the last 10 years, as you know, is the layering and the overlap and duplication of one program on top of another. So you really need to count all of the benefits that are available to a person in need and compare that with the poverty line.

And I would refer you to a study that was done by the General Accounting Office for Senator Roth, a member of the Senate Finance Committee, that concluded that about 80 percent of AFDC families in their sample received cash and in-kind benefits from other public assistance-type programs which in total exceeded the poverty line. So that 80 percent of their sample exceeded the total poverty line when you counted all the benefits that were available to them.

And giving just some individual statistics, and this is again the average total income, for a family of four, counting cash, food stamps, imputed in-kind value of housing subsidies and the statewide average medicaid vendor payments. For a family of four in Hartford, Conn., total income of $10,619; Madison, Wis., $11,069; Milwaukee, Wis., $11,293; for a family of five here in Montgomery County, Md., total income of $13,581.

Chairman FORD. Mr. Secretary, to change the subject a little bit, you talk about the earnings disregards. You have also talked about the workfare program.

How many States have already opted for the workfare option in existing law, the—you had a fancy name for it. What is it?

Mr. SWOAP. Community work experience program?

Chairman FORD. Yes, community work experience. That is workfare, right?

Mr. SWOAP. Right. We have three, I believe, that have already implemented it since October and 20 more that are on their way to doing so.

Chairman FORD. How many more?

Mr. SWOAP. Twenty more.

Chairman FORD. In the States that have already decided to establish the program, what kinds of jobs have been provided for these AFDC recipients? Could you tell us?

Mr. SWOAP. It is a wide spectrum, really, and again, it reflects the kinds of diverse work skills and job opportunities that should be made available. We are talking about such things as—and I am going to mention some hypotheticals and Linda might give us the specifics in those three States—but we are talking about such things as nurses aides, library assistants, playground attendants, school crossing guards, park maintenance personnel, those kinds of things.

Linda, would you augment that with the actual experience? I think some are using them as meter maids, for example.

Ms. MCMAHON. Right, and teacher's aides.

Chairman FORD. Do any of the jobs require any type of training?

Ms. MCMAHON. Well, in most jobs, you are going to have a certain amount of on-the-job training, at a minimum. We feel that work activity of any kind provides the training that you need to work in an atmosphere with other people; and that you have to have a certain amount of discipline in order to do any job. So we think there is a training value just there. In terms of teacher's aides jobs, where you are aiding people in other kinds of jobs, you are going to have on-the-job training. You are going to be able to learn about those kinds of jobs.

Chairman FORD. What is the cost of this type of program? Is it cost effective?

Ms. MCMAHON. Yes. For instance in West Virginia, they did not have to hire any additional staff to do the supervisory work and the administrative side of these programs. They have just integrated them into existing programs that the State has. For instance, the level of service has had to go down in a number of cities and counties because of economic problems.

So if you have an individual who is already working in a park, let us say, in a recreational setting, that individual now becomes a supervisor to two or three community work experience people. So you have not increased the cost, as a matter of fact, to the city or county. You have raised the level of service.

Chairman FORD. I understand that HHS estimates savings of $49 million in fiscal year 1983 from a mandatory workfare program. Tell me, what is the precise basis of this estimated savings of $49 million?

Mr. SWOAP. Actually, it is a very conservative number, Mr. Chairman. It would be possible to come in with a reasonable estimate that would be substantially higher than that, but we chose not to do so and to stay on the conservative side of the estimate. For example, we used a deterrent factor in that estimate that was

only half of the actual experience that occurred in Utah, I believe, in the conduct of their program.

And you asked about the cost effectiveness of workfare. In the demonstration programs that have been on going, as well as in the three States that are now underway statewide, we have found an extraordinarily positive effective upon individuals either leaving the caseload or not proceeding with their application after their initial visit to the welfare office.

Chairman FORD. Does the savings come from getting people into the workforce, is what I am getting at?

Mr. SWOAP. It is a combination of getting individuals into the workforce or equipping them with the skills that will enable them later to enter the workforce, or requiring them to use resources that they already have when they prefer not to proceed with a workfare requirement and they learn that that is, in fact, a requirement.

Chairman FORD. So you are not telling me that your estimated $49 million in savings will not come directly from moving people into workfare jobs; is that correct?

Mr. SWOAP. Well obviously, it is a combination of the things that I mentioned. It is a combination of securing work on their own, or as a result of workfare, later becoming employed.

Let me just mention that in Kent County, Mich., for example, which implemented the job search requirement, they found a 60-percent decline in their caseload of participants that were required to engage in job search, which included 20 percent that found jobs prior to assistance and 40 percent that withdrew their applications when they learned that there was a job search requirement.

In Weld County, Colo., there was a 56-percent reduction in the caseload among those persons who were affected.

Chairman FORD. The place you just mentioned, in Michigan, the staff has reminded me of the WIN program there had double the amount of money that I guess it was supposed to have had which probably accounts for the increase that you made reference to.

Mr. SWOAP. I think that was a figure that was attibutable to the State of Michigan as a whole and not to Kent County in particular. I am referring to the specific county in Grand Rapids, Mich.

Chairman FORD. We are talking about Kent County. That was a pilot project. Is that correct?

Mr. SWOAP. Yes. In Kentucky, a 64 percent decline which was due to a 31-percent factor of individuals finding unsubsidized employment and 33 percent dropping out of the program when they learned that there was a work requirement.

Utah should be mentioned as well. I think I referred to it earlier. They have had one of the most significant work experience programs and they found 52 percent of their caseload was affected by the requirement; they had cases closed prior to assignment or cases closed prior to assignment due to employment.

I would like to submit for the record, if I may, Mr. Chairman, a letter from Mrs. McMahon that appeared in the Washington Post today. It addresses many of the basic questions you are raising. It describes the West Virginia experience. It describes the question of administrative costs and training requirements and points out the

basic value of work requirements in a properly structured public assistance program.

Chairman FORD. Mr. Secretary, it will be made a part of the record.

[The letter follows:]

[From the Washington Post, Mar. 25, 1982

WHERE WORKFARE WORKS

The Post's editorial "Making Workfare Work" (March 11) presumes failure of the administrations's initiatives to remove the roadblocks that prevented states from offering welfare recipients a chance to work.

In the past, states courageous enough to experiment with these programs had to fight Washington to be able to do so. Times have changed. This administration believes that able-bodied welfare recipients who can work should be encouraged to do so. That is the idea behind the 1981 work proposals. The new law encourages states to design their own Community Work Experience Programs (CWEP) in the public and non-profit sectors.

Instead of looking at the restricted efforts of the past, lets look at some early indicators of how a CWEP works under the new law. In West Virginia, which began its program on Jan. 4, some 1,200 Aid to Families With Dependent Children recipients are working for 350 different organizations in counties throughout the state. They are gaining experience as meter maids, clerks, teachers' aides and aides in recreation centers and parks. These are jobs that did not exist before because there were no funds to pay for them as part of the regular public work force. Federal requirements, in fact, prohibit any CWEP assignments from replacing paid positions. This program permits public services to be performed while providing on-the-job training. By integrating CWEP's with existing work programs, the state has not had to hire any additional staff to administer CWEP activities.

This productive work experience offers opportunity when, at any given time there are nationally 800,000 employable AFDC recipients for whom no work program assignments are available. Without, the possibility of CWEP, they might not have an opportunity to seek gainful employment. Both the public and the individual are served.

Contrary to The Post's assumption about burdens posed by child care, over 40 percent of AFDC families have children in school. In may states, AFDC children are in two-parent households, or other adults are present in the home to assist with child care.

The Post suggests that welfare recipients do not want to work at CWEP jobs that do not offer special training. While it is true that not all CWEP jobs may require a high level of skills, any job that enables someone to offer to a future employer evidence of a work history and personal initiative is a good job.—Linda S. McMahon, Associate Commissioner for Family Assistance, Social Security Administration.

Chairman FORD. Mr. Moore?

Mr. MOORE. Thank you, Mr. Chairman.

I join the chairman in his earlier comments, Mr. Assistant Secretary, in asking that whenever you can, you give us a study because I am optimistic the study is going to prove that we are not being unfair, that we are eliminating the very kinds of people I think the American people support us in eliminating, those who really do not need help. If the study shows the contrary, I want to be one of the first ones to repair any damage we have done to those people who have been unjustly eliminated.

But I think the American people very strongly are in favor of us doing everything we can to get people out of the programs that do not really need that kind of help. Regarding the overlapping of programs, it seems to me when we created the low energy assistance program, that I voted for and supported, we did that without any consideration whatsoever for its impact on AFDC or any other Federal entitlement program. The fact that we piled one more on top of another was just something we did not think about.

It is very popular as a politician to give and it is very unpopular to take away, and I think we are in an unpopular stage now of trying to begin to integrate these programs. And I fully agree with you that every kind of benefit that a recipient receives ought to be counted. And this ought to be counted, and to not count it is simply turning the other way, having a standard but really forging on the standard, because that is the popular thing to do.

So I encourage you to come forward with a study that would give us some kind of profile indication of the kinds of people that are being eliminated, why these people are being eliminated, and what happened. You have given us a lot of information this morning along those lines.

I would like to ask for a minute about the block grant situation. I have studied the testimony of the Secretary before our committee earlier this year. We had hearings in the Oversight Subcommittee, on which I am a member, of people coming in and attacking the program. I really do not think we have given it an opportunity to work yet.

You are proposing a new block grant for social services of $1.97 billion, which I think your testimony indicates is 1982 percent of the fiscal year 1982 funding for these things being block-granted.

Mr. SWOAP. Yes, sir.

Mr. MOORE. I want to ask again, as I did last year, if this is your concept, and also can you prove or disprove that a portion of the 18 percent that people will not be getting next year, was essentially used up in the bureaucracy of administering these programs as a categorical grant? Am I right or wrong in that?

In other words, the idea is the dollar that goes down to the actual recipient may well not necessarily be changed. Can you give us your opinion on that or any evidence you have on that?

Mr. SWOAP. Yes, sir. That is the fundamental precept behind the block grant approach so that States not only will have additional flexibility to meet the kinds of needs that they encounter in their overall title XX obligation, but also will be freed from a number of the reporting requirements and the freight charges, as it were, when you ship the money to Washington and then ship it back to the States.

I would like to respond as well, Congressman, that one of the critical needs in title XX, and one of the things that we think will be enhanced and encouranged by the block grant approach, is some basic cost effectiveness analysis of the various kinds of things that title XX money funds.

Chairman Ford was focusing upon the dollar amounts that went from $2.9 to $2.4 to $1.9, but in fact, if you go back over a longer period of history, over the period of time since title XX first came into effect in the early 1960's, you see a massive increase in title XX funding that largely occurred in an undifferentiated way. The title XX moneys were being used for a whole host of items at the State and local level, and as you know, I served for a time as welfare director in California under then Governor Reagan, and when I was asked to make title XX allocations, one of my first questions was, where is the cost/benefit analysis that tells me which title XX expenditure is delivering more and more final product than an-

other. The answer was basically, we do not have those kinds of studies.

So I think the block grant will permit the kind of flexibility and hopefully encourage the cost/benefit approach that will tell us what we are buying for title XX expenditures.

Mr. MOORE. How soon do you think you can advise this committee of what the effect has been of the block grants enacted last year—for instance was there actually a reduction in money at the end of the pipeline to the recipient with the block grant approach, as compared to categorical approach?

Mr. SWOAP. I believe that we are already receiving some survey information, both in written form and by telephone. We are conducting a special telephone survey of the States now, and I think certainly within the next few weeks or months we will have a fairly good idea of how that is spinning out.

I would express one caveat, and that is one of the fundamental principles of a block grant is to leave the States alone and not require them to give us all kinds of data and reporting and definitional requirements. So we want to be sure that we do not go back into the old categorical approach of requiring a multiplicity of reports, but I think it is critical to get the kind of data you are asking for.

Mr. MOORE. One thing I hope that your report would show already was some of the educational block grants that exist now. I have found that the school board has chosen not to send money in a certain area where they were spending it before in a categorical grant program because that was the only place they could spend it. And people are construing that as a reduction in funds for that particular activity, when in fact that is not what it was at all. It was a flexibility designed by the local government not to spend it there any further, but to move the spending some place else.

Mr. SWOAP. Yes, sir.

Mr. MOORE. I hope you will be able to address that in your study because I think there are some misconceptions floating around.

Mr. SWOAP. Yes, sir. Another excellent example of that is in the low-income energy assistance program, where with all of the discussion of whether or not the amount was adequate and the additional $123 million that the Congress just appropriated to add on to the program in the current fiscal year, we find that strangely enough, 26 States have transferred funds out of their low-income home energy assistance block grant into other areas. And that adds up to about $75 million. And as you know, there is a 10-percent limit on the amount that they can transfer out, so 10 percent of $1.8 billion is about $180 million, so already they have transferred out about 4 percent of their funds into other blocks and not used it in the low-income energy area.

Mr. MOORE. I am not wishing to overload the State with paperwork, which would get us right back into burning up funds we intend to go to help these people. I would hope that we would be able to find out what they are using that money for. I think we have the ability at the Federal level to say OK, if you have shifted it from this, what did you put it into? There is great suspicion out there among people who are believers and supporters and often recipients of various programs that they are going to build bridges or

roads or raise county commissioners' salaries or whatever, and that is not the intention of the block grant programs. I would hope you would be able to show that the funds shifted that were formerly spent on categorical grants are now clearly being spent on block grants.

So then it would be easier to defend the block grant approach or perhaps have it tightened up in some way.

Mr. SWOAP. Yes. I think we will be able to report to you on those kinds of broad funding directions. I would also observe as well, however, that it is our conclusion and my own personal conviction, after being at both the State and Federal levels in the field of welfare administration, that there is nothing here, with all due respect to the committee and to the Federal level, there is nothing at the Federal level that guarantees a greater measure of wisdom or equity or insight into how human need must be met than there is at the State level.

My own feeling is that State legislatures, county officials, have come a long way in the last 20 or 30 years and are as attentive to these concerns as those of us here in Washington are. And in fact, I think an argument can be made that those at the State and local level are better equipped to make those kinds of decisions because they have to be on the site and they have to make the kinds of cost-effective analyses that differentiate between levels of human need that often are changing on a day to day basis.

Mr. MOORE. It has not been touched on yet today by questions from any members of the subcommittee that I can remember, but it certainly was touched upon in great detail before the full committee when the Secretary testified, about the elimination of disregards and what that has done to cause people to not go to work and stay on welfare. This is disturbing to me.

I note in your testimony you have some interesting figures. I wonder if you might not go over that again because I do not think the committee should be operating under false information about something that is supposed to be a good idea when the facts may well contradict that.

Mr. SWOAP. Yes, sir. You are referring specifically to the modification that we made in the $30 and one-third disregard formula and the work-related expense deductions from the formula that was in place before last October. Let me make several points in this particular area because I think there are a number of major misconceptions about how the earnings disregards operated formerly and how they were supposed to operate and what in fact was our experience.

The first point I would like to make is that in fact, there were two mathematical defects in the formula. The way that the $30 and one-third and the work-related expenses were put together resulted in two major mathematical defects. The first one addressed the question of in which order are you going to allow these disregards? Are you going to do the work-related expenses first or are you going to do the $30 and one-third first? You might think well, that is not of major consequence. What difference does it make which one you do first?

The fact is, it does make a great deal of difference, and in 1968, just shortly before the Johnson administration was leaving office,

the regulations were adopted that placed the $30 and one-third first and then the work-related expense deductions, and that meant that one-third of the work-related expenses were being deducted twice. Whereas if you had the work-related expenses first and then the $30 and one-third, it would have been in proper order.

So in the formula that was in effect between 1968 and last October, we had a situation where one-third of the work-related expenses were being deducted twice.

The second defect had to do with the so-called 4-month rule, where there was a provision in the Social Security Act that was intended and envisaged as a transition period for welfare recipients and it said if you secure employment, we are not going to count dollar for dollar your earnings and require you to go out on your own right away; we are going to give you a 4-month transition period.

Well, the problem was in the manner in which the 4-month rule was established in the statute, it said if you have been on welfare in any one of the preceding 4 months, you qualify for these disregards. You will have always been on welfare in one of the preceding 4 months because of the disregards.

So it was a constantly rolling forward 4-month period. There was never an end to the 4-month rule. Once families entered the 4-month period at one end, they never came out the other end. They got to use disregards ad infinitum.

So all that we did last October was to create what I am convinced was the Congress's original intention, a single 4-month transition period that said you can use the disregards in the 4-month period, and then after the passage of 4 months, you will be on your own.

So those are two principal mathematical or operational defects that we found in the formula.

Then if you look at the ultimate purpose of earnings disregards and work-related expenses themselves, they were of course adopted by the Congress with the conviction that this would encourage or enable or enhance people to work their way off welfare. And we find in fact that the result was precisely the opposite, that from the early 1960's to the present, about 14 percent of all welfare mothers have worked and there has not been any change in that figure over that entire period.

Mr. MOORE. The University of Chicago study that was cited in those hearings quoted that same figure?

Mr. SWOAP. No, the University of Chicago study, I believe, did not include that figure, and the University of Chicago study had a number of basic defects in it. It had a number of errors in it which I would like to point out for the record.

First of all, it said that we were counting energy assistance dollar for dollar against the AFDC grant. We are not doing that. We are counting low-income energy assistance only against that portion of the need standard that provides for utilities.

Second, the University of Chicago study said that we are removing children when they reach age 16. We are not doing that. We are simply removing the adult caretaker when the child reaches age 16.

Third, the University of Chicago study said that there were a number of dramatic effects of people being better off by not working than by working, and in fact the effects were not as dramatic as reported in the study because in some 18 States, the analysis did not utilize the full $75 work expense disregard that we still provide under the new changes of the Reconciliation Act.

Fourth, the University of Chicago study only examined the effects on cases after the 4-month limit had been reached on the $30 and one-third disregard, and did not examine the period during the 4-month rule on the $30 and one-third.

So there were a number of basic simple inaccuracies and misstatements of fact in the University of Chicago study.

But more than that, the principal defect in the University of Chicago study was the implicit assumption that people would be faced with a work disincentive and for that reason they would either prefer to remain on welfare or would remain on welfare for a longer and longer period.

As I say, the facts indicate that the work-related expense deductions and earnings disregards have not had any effect at all in encouraging people to leave the welfare rolls, and as I say, the results have been precisely the opposite because in 1967, 33 percent of the caseload left because of earned income, and in 1979 less than 10 percent of the caseload left because of earned income.

So I would add, of those figures, to the one that I mentioned in my opening statement, which was the InterStudy report done in 1975, that pointed out that when you added all of this up, the costs of the disregard were 10 times higher than the savings that resulted from people working their way off the welfare rolls.

Mr. MOORE. Now you are saying also that disregards have had no effect in terms of getting people off welfare and back to work?

Mr. SWOAP. Yes, and in fact——

Mr. MOORE. The 33-percent factor has remained constant?

Mr. SWOAP. That has remained constant and the other figure has gone down. The percentage of people leaving the rolls because of earned income has dropped from 33 percent to 10 percent.

Mr. MOORE. What has been the result now since these things went into effect that we passed in the reconciliation bill last year?

Mr. SWOAP. The results are that persons with relatively high incomes are leaving the welfare rolls and that no longer do we have this reverse boomerang available whereby people with relatively high incomes can remain on the public assistance rolls.

Congressman Moore, I would point out one further kind of conceptual element that is very important, and that is in a properly structured welfare system, one should not give the option to an able-bodied individual as to whether or not they are going to work. They should not have the choice to decide well, I prefer to be dependent upon the taxpayer than to go to work for myself.

In a properly structured welfare system, that choice should not be available and they should be faced with three deterrents. One is a job search requirement. The second is a workfare or a community work experience requirement. And the third is a prohibition against a voluntary quit. Just as we have in unemployment insurance, a person should not be able to voluntarily decide I am going to quit work in order to go on welfare.

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Mr. MOORE. Have you seen, since the reconciliation bill went into effect, as the University of Chicago study was essentially implying, an increase in people who are dropping out of work and going on the welfare rolls?

Mr. SWOAP. Linda, would you respond to that? I do not have the precise history at my fingertips.

Ms. MCMAHON. We do not have a lot of information at this point. We are just beginning to get statistics because of course the changes just started in October and the actual end of $30 and one-third after 4 months only was effective February 1.

We have anecdotal stories on both sides of the question. We have seen stories where some people have said this is exactly the impetus that I needed to get off welfare and it is great to be off and now I have a job and I am going to make it. We have seen anecdotal stories of people saying it's not worth it to me, I am not going to work.

I think one of the things that I would like to point out is that we do not know the magnitude of the numbers of people who may quit in the short term, but that if you look at the history, it says that with and without disregards, the same number of people work. If a few people quit in the short term because they prefer to be on welfare rather than work, we think a public policy decision should not be made to reverse the change that we have made because of those few people.

In addition, I think that it is unfair to welfare recipients to say that they would prefer to be on welfare than to work, particularly if they already have jobs. So we do not see a major impact from people quitting, and we feel that if there are some people quitting, that ultimately they are going to see that it is better to work and where there are jobs available and they can work, they will do so.

Chairman FORD. Mr. Moore, would you yield?

Mr. MOORE. I would be happy to yield.

Chairman FORD. Please, tell me, what kinds of jobs are we talking about? What kinds of earnings are we talking about, these people who are leaving? What kind of health insurance are we talking about for these mothers who are seeking and finding employment in the job market? What kinds of earnings are we talking about? Are we talking about a majority of these people with health insurance coverage to protect and provide for their children?

Mr. SWOAP. Yes, let me respond to that, Mr. Chairman. First of all, if they are leaving the welfare rolls, they are leaving at standards above the State's need standard and the——

Chairman FORD. What is the need standard in Tennessee and Texas?

Mr. SWOAP. I can give that figure to you. I do not know if I have it at my fingertips, but we can certainly provide it. In Texas, currently the payment standard is $141 for——

Chairman FORD. Is that the standard of need?

Mr. SWOAP. That is their payment level.

Chairman FORD. The payment level. What was it?

Mr. SWOAP. $141, but Mr. Chairman, I must again point out that that is solely cash assistance under AFDC. To that you must add food stamps, housing subsidies, medicaid, the earned income tax

credit, and other kinds of income transfer programs that are available to welfare recipients.

Chairman FORD. But what happens when they lose AFDC, they lose medicaid eligibility?

Mr. SWOAP. In many States they do not because if a State has a program for the medically needy, they will continue to be eligible as a medically needy person because as you know, the income standard for that is 133 percent of the AFDC need standard, so they may continue to qualify as a medically needy person. I am told that 34 States have medically needy programs today.

Also, if they are employed they can continue for a period of time, for 30 days beyond their cash assistance, to qualify for medicaid under our proposals. And if they are entering the regular job market, which currently has about 88 percent of individuals covered by private health insurance I think, then we believe that the combination of the medically needy coverage under medicaid and the private health insurance should meet the majority of those cases you are describing.

Chairman FORD. What about that 15 percent that is not covered and has no protection?

Mr. SWOAP. The 85 percent does not count medicaid at all. That is just private health insurance, period. So to say they are not covered at all is a misstatement. They are covered either by medicaid or by the network of public facilities, county hospitals in this country that historically have provided health care to meet the very kinds of gap in coverage you are describing.

Chairman FORD. Well, the full Ways and Means Committee has conducted field hearings throughout this country regarding the President's promise of a safety net to protect the truly needy.

Mr. SWOAP. Yes, sir.

Chairman FORD. I do not think we can talk about the truly needy being protected.

Mr. SWOAP. I differ strongly with you, and if you look at the statistics——

Chairman FORD. You keep showing me those charts, but I cannot see any protection at all.

Mr. SWOAP. That is the basic character and dimension of the safety net which is all those programs—AFDC, SSI, food stamps, nutrition programs, medicaid, housing subsidies, earned income tax credit, and low-income energy assistance. It has gone up and will continue to go up under this administration. It will go up in fiscal year 1983 to $55.8 billion from fiscal year 1980 at $46.9 billion, and in 1985 even under the reductions that are contained in our budget proposals it will continue to go up by another $5 billion to $60.5 billion.

Chairman FORD. And probably medicare is the big jump in the chart, is it not?

Mr. SWOAP. Medicaid, medicare——

Chairman FORD. I am speaking of that chart before me. I do not see medicare on there.

Mr. SWOAP. Yes. Medicaid is a large piece of that. Food stamps is a large piece of that. As you know, the food stamp program has grown by about 33,000 percent since 1965.

Chairman FORD. What about in the last fiscal year? What about for the proposed 1983?

Mr. SWOAP. There is a slight reduction. Again, this is not in my department.

Chairman FORD. Well, you brought it up.

Mr. SWOAP. It is because it is part of the total safety net approach. Food stamps doubled from $6 billion to $12 billion between 1975 and 1981.

Mr. MATSUI. Would the chairman yield?

Chairman FORD. It is not my time. Mr. Moore has the time.

Mr. MATSUI. Mr. Moore, may I just interject a question?

Mr. MOORE. I would be happy to yield.

Mr. MATSUI. Thank you.

We are using statistics and charts and a lot of numbers, and they can always mislead or create impressions that may or may not exist, and I am just going to throw one out just to add to the confusion.

Under the Ways and Means Committee report analyzing the administration proposals, on page 17, the total percentage of dollars to public assistance and social services programs of the Federal dollar in 1975 was 3.6 percent, and with respect to 1985, under the administration proposal it would be 2.3. This would constitute a considerable reduction.

Mr. SWOAP. I do not think those are the proper statistics. The percentage of the Federal budget will increase for the Department of Health and Human Services.

Mr. MATSUI. Percentage of outlay.

Mr. SWOAP. If you look at the percentage of outlays, as this chart does, you will see that the percentage continues to increase in the Reagan budget.

Mr. MATSUI. Oh, you are including social security in this, too.

Mr. SWOAP. If you factor——

Mr. MATSUI. You are including social security in there, oh.

Mr. SWOAP. Congressman Matsui, if you factor social security out of the equation you will find that the nonsocial security entitlement programs have been growing at a faster rate than has social security; so it is in the nonsocial security entitlement programs that you find the problem.

Here are the two lines that show the social security program versus the nonsocial security entitlement programs, and you see that the rate of increase in the nonsocial security entitlement programs has been even faster than in social security.

Mr. BOWLER. Could you just focus on AFDC and social services, low-income energy assistance, those programs under the subcommittee's jurisdiction? That is what this table is referring to. It includes AFDC, SSI, title XX, low-income energy assistance, child welfare programs, and EITC.

Mr. SWOAP. I can do that, but the chairman's question was directed toward the social safety net, and that is many, many income transfer programs, other than just AFDC and social services.

Mr. BOWLER. I was clarifying the table.

Mr. MOORE. Mr. Chairman, I will close out my questioning of the Under Secretary by asking this. It is your opinion from the evidence before we had income disregards or after we had them in the

law that they have not worked. There has been no change in people leaving welfare and going to work, is that correct?

Mr. SWOAP. Not only has there been no change in the percentage of persons employed, but the percentage leaving the welfare rolls because of earned income has declined from 33 percent to 10 percent.

Mr. MOORE. It has been a costly idea that has not worked?

Mr. SWOAP. Yes, sir.

Mr. MOORE. Now, there are people on the committee who feel that the amount of aid we are giving under AFDC to recipients is not enough. My comment would be if that is the case then we should address how much AFDC we are going to give, not try to get more money to them by virtue of a part of the formula that is expensive and does not work, am I right? Or is it that we think people are not giving enough help? Let us address that issue head on and not protect things in a formula that is not working.

Mr. SWOAP. Yes, sir. I would agree with that entirely. And by targeting the system to people at the low end of the spectrum—and I would refer again to my testimony indicating that 25 States have increased their payment standard since October, just since the reconciliation changes. That helps people on the low end of the income scale. So that, for example, California has increased payments to a family of four with no other income by 7 percent. Louisiana, your State, has increased payments to a family of four with no other income by 24.5 percent. Illinois has increased payments to a family of four with no other income by 5.4 percent. And their ability to do that is as a direct result of the savings that came through the changes that were embodied in the reconciliation legislation.

Mr. MOORE. I thank you.

Thank you, Mr. Chairman.

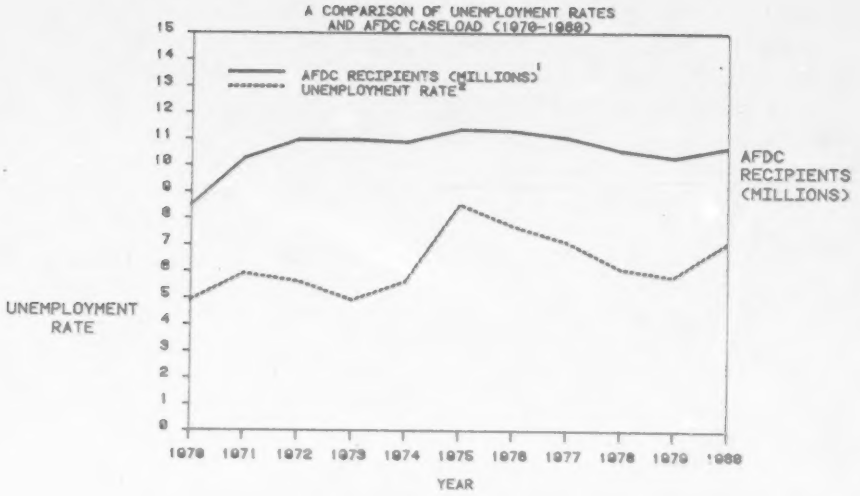
Chairman FORD. Mr. Bailey.

Mr. BAILEY. Thank you, Mr. Chairman.

Mr. Under Secretary, do you have a chart that indicates the relationship between the people that are on, have been on welfare, and the unemployment rate as it has changed over time? I am sure you have compared those and compared that relationship against the benefit ratios and that type of thing?

Mr. SWOAP. I do not have that with me, Congressman, but we will be happy to supply that to you personally and for the record.

[The chart follows:]



NOTE: 1. SOCIAL SECURITY ADMINISTRATION, UNPUBLISHED DATA, 1982

2. UNEMPLOYMENT RATE FOR ALL WORKERS AS REPORTED IN U.S. GOVERNMENT COUNCIL OF ECONOMIC ADVISORS, THE ECONOMIC REPORT OF THE PRESIDENT, FEBURARY 1982, TABLE B-33, P.271

Mr. BAILEY. I would have thought that that would be one of the most important charts you could have brought with you, but I suppose it is not.

Let me ask you this.

Mr. SWOAP. May I also just comment, conceptually there is not the direct relationship that one generally assumes between unemployment and welfare roles across the board, and that stems from the fact that about 85 percent of the total welfare picture——

Mr. BAILEY. Is that not one of the goals of your program? You want to build a bridge there. You want to build a relationship between unemployment and welfare. You want to get people off of welfare. You want to build a relationship if there is not one between unemployment and welfare. You want to build one from welfare to employment.

Mr. SWOAP. That is correct.

Mr. BAILEY. That is what we are talking about.

Mr. SWOAP. That is correct.

Mr. BAILEY. Well, how does the plight--and it is a plight in this country—of our black citizens, how does that relate to your program or these programs? I mean I went to school up in Ann Arbor, Mich., at the University of Michigan, and I have a lot of friends from up around that Detroit area, and I was in the service and I have a lot of friends who were in the service, and I had occasion in my life to make a lot of friends who happen to be black. They are good friends.

What is the relationship between all these unemployment problems and the plight of black people in the United States of America?

Mr. SWOAP. There is clearly a major problem that——

Mr. BAILEY. What are you doing about it?

Mr. SWOAP. I was not here and so I am sorry, I do not know if you were here for the Department of Labor testimony.

Mr. BAILEY. No. I apologize if I am missing something.

Mr. SWOAP. The Department of Labor is proposing a major new jobs training program that will be targeted specifically at welfare recipients and unemployed youths and will put a larger proportion of the total dollar, about $1.3 billion out of $1.8 billion, into specific training opportunities rather than into high overhead and administrative costs as we have seen with the CETA program.

Mr. BAILEY. They are going to have a steady supply of people out of the military. I want you to know there is a lot of fodder for the program coming to you.

On page 6 of your statement, the last paragraph, another source of income available to many AFDC recipients comes from the low-income home energy assistance program. We would require that amounts provided under that program for payment of heating or cooling costs be counted as income to the extent a State already provides amounts for heating and cooling under its AFDC program.

Do you have a list of the States that do, and if not, could you supply that for the record?

Mr. SWOAP. Yes, sir, we will be happy to supply that for the record.

Mr. BAILEY. Do you have that with you?

Mr. SWOAP. I do not believe we have that particular one.

Mr. BAILEY. Can anyone comment on the State of Pennsylvania for me? It is a State that is dear to my heart.

Mr. SWOAP. I am sorry, Congressman. We will get that for you.

[The information follows:]

The administration's proposal would require States to count as income low-income energy assistance payments to the extent they duplicate the amounts for heating and/or cooling in the State payment standard. All States include utilities as a basic item in their payment standards. However, many States which use a consolidated payment standard and do not identify an amount specifically for heating and/or cooling would be required to define what portion of the payment standard is for heating and/or cooling using historical projections or some other reasonable and supportable method. The State of Pennsylvania does not currently idenfify an amount for heating and/or cooling in its State plan.

Mr. BAILEY. On your charts about growth, back to Mr. Matsui's questions, do you have any figures on real increases?

Mr. SWOAP. Yes, sir.

Mr. BAILEY. What are they? I do not need to go through a chart?

Mr. SWOAP. That is the quickest way to show it. Many times when I show these charts people say that it is inflated dollars.

Mr. BAILEY. I am not saying that. I just want to make sure you supply that information for the record, and I am sure you have worked on that. That does not get to my question and my difficulties with the underlying nature of your proposals. But how significant are the real increases?

Mr. SWOAP. This shows the information you are asking about, which shows that, for example——

Mr. BAILEY. I see a dropoff there in 1982 and 1983.

Mr. SWOAP. That is across all income security programs in the Federal Government. If you look at those that are administered just by our Department, it continues to increase, and you will see that there is a very slight tapering off.

Mr. BAILEY. Did you present this chart to the committee before, or is this the first time?

Mr. SWOAP. This is my first appearance before you.

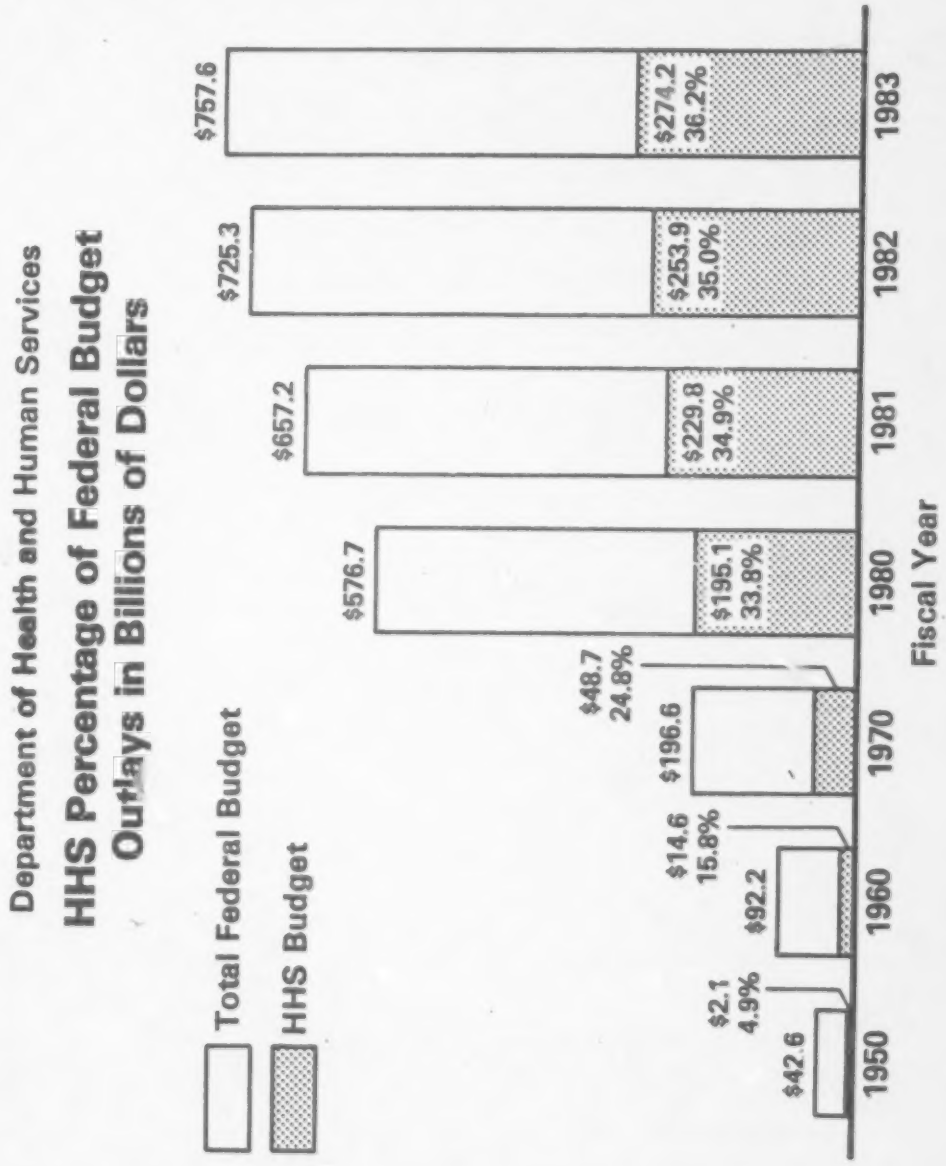
Mr. BAILEY. But that chart in the presentation today, is that the first time it has been up there?

Mr. SWOAP. Yes, sir.

Mr. BAILEY. Well, all the data that went into this chart right here, would you supply that information?

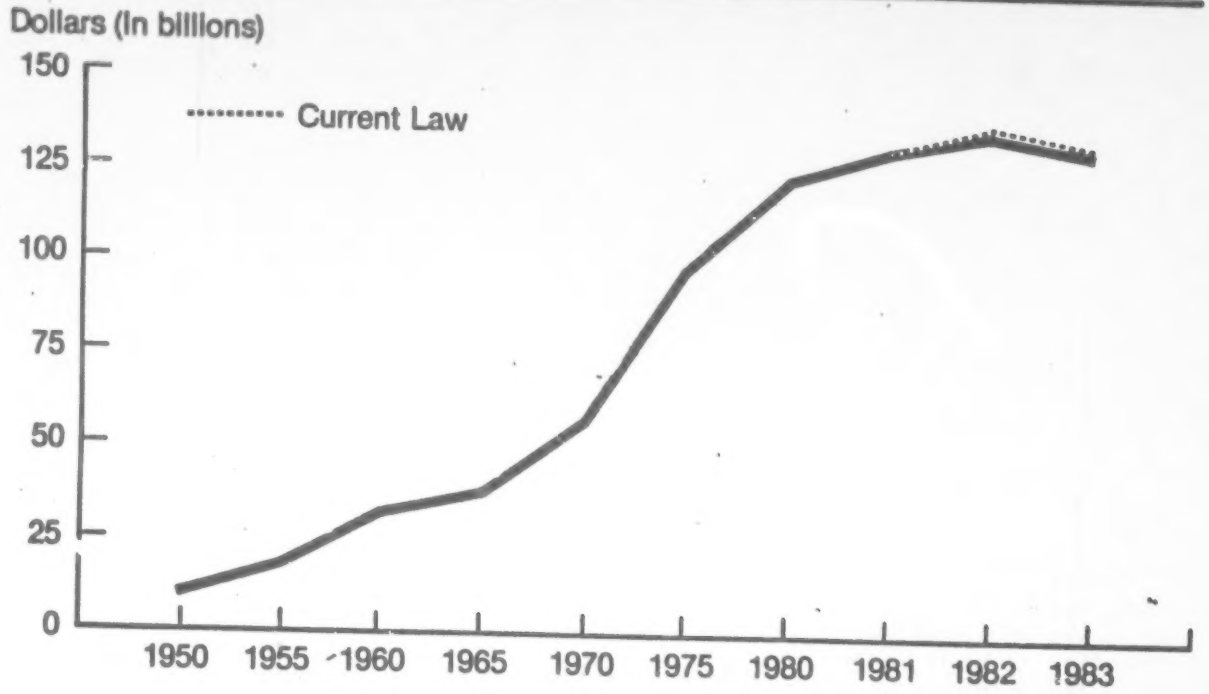
Mr. SWOAP. We will be happy to provide copies of the charts themselves.

[The charts follow:]



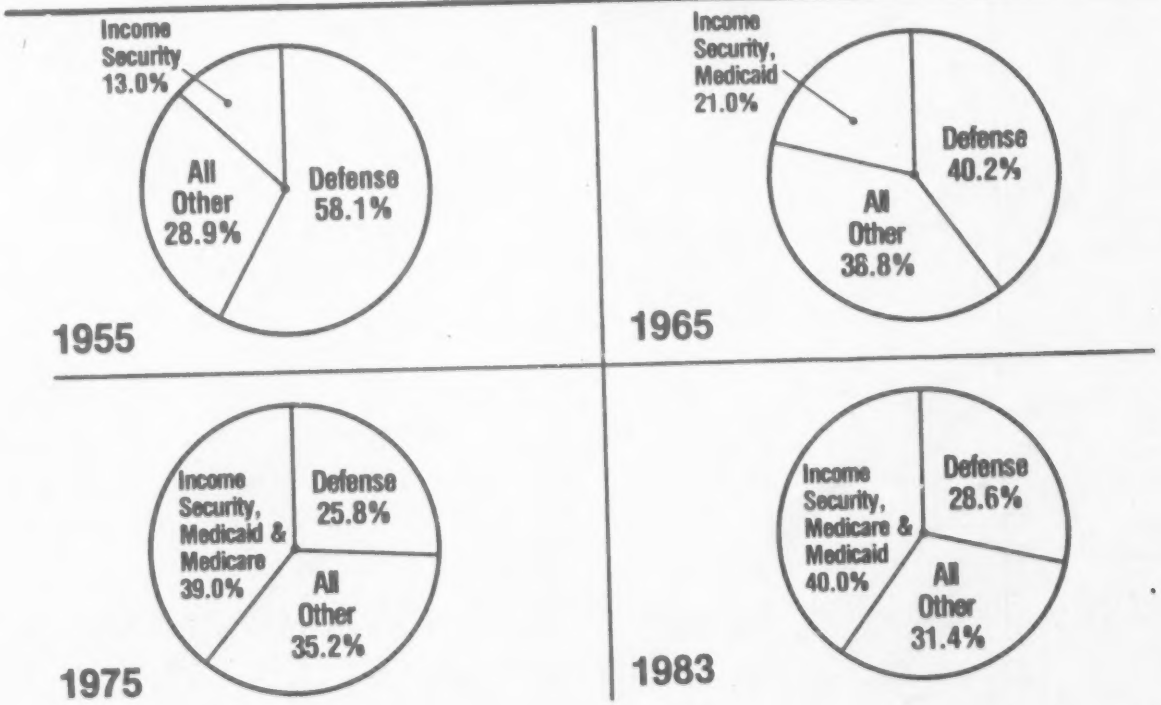
Department of Health and Human Services

Growth in Income Security Programs in Constant Dollars (Using 1972 as a base year)



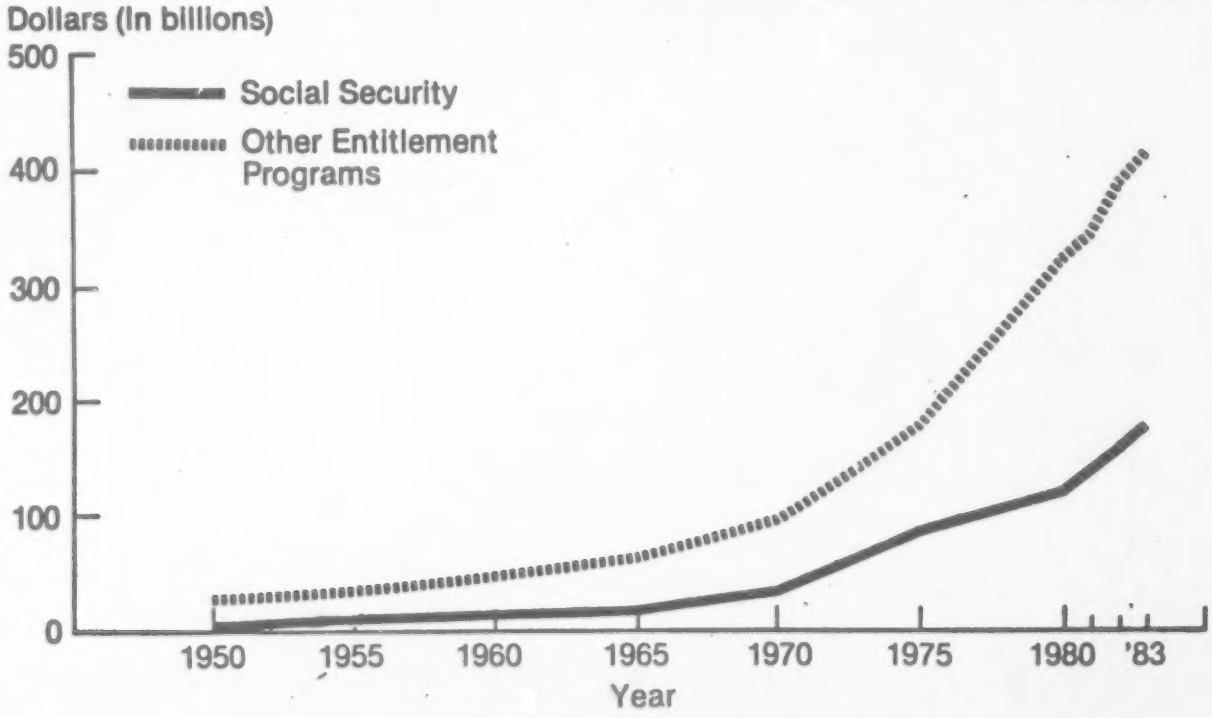
Department of Health and Human Services

Relationship Between Federal Expenditures for National Defense and Income Security, Medicare & Medicaid Relative to Total Federal Budget

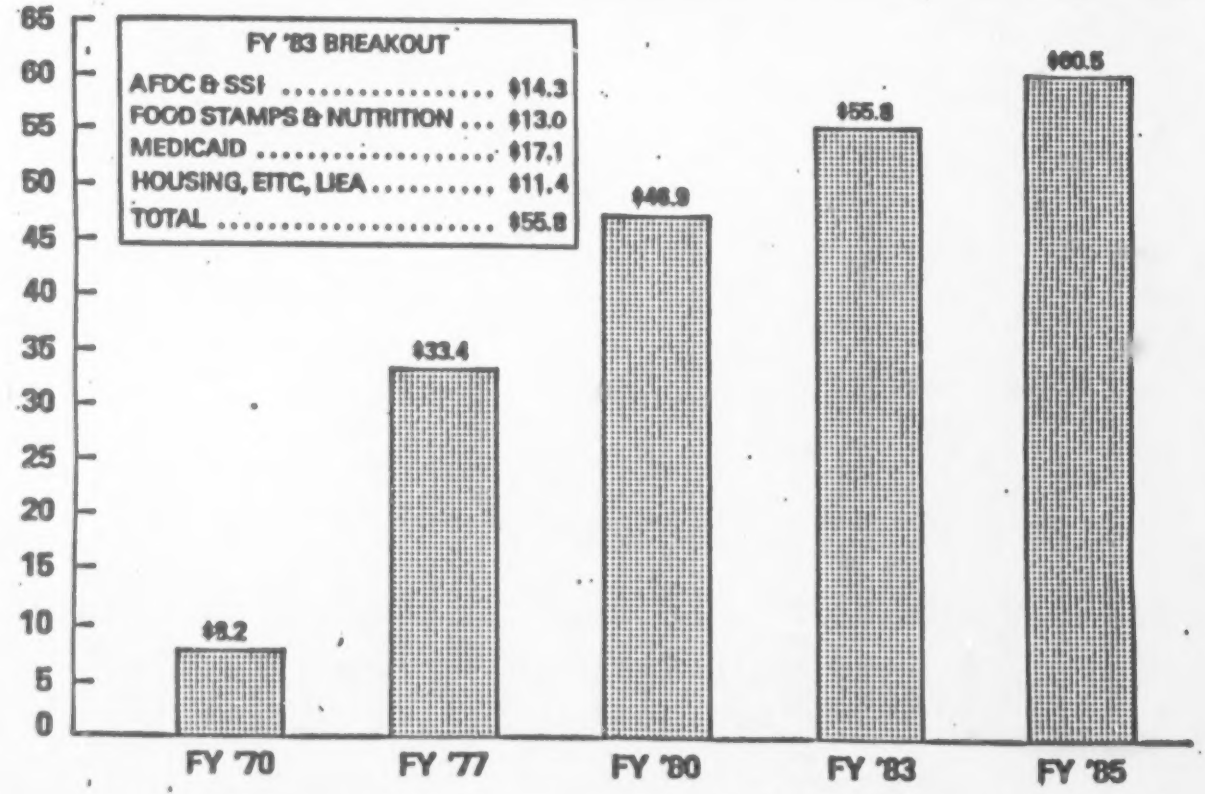


Department of Health and Human Services

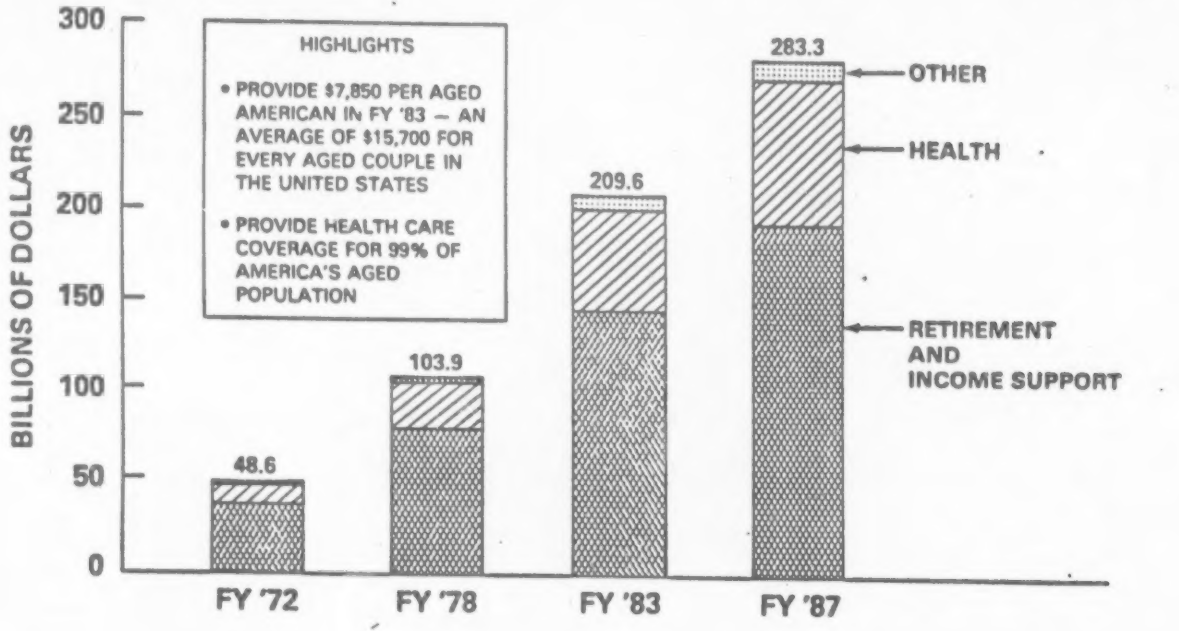
Change in Social Security vs. Other Entitlement Programs



FEDERAL INCOME ASSISTANCE FOR THE POOR

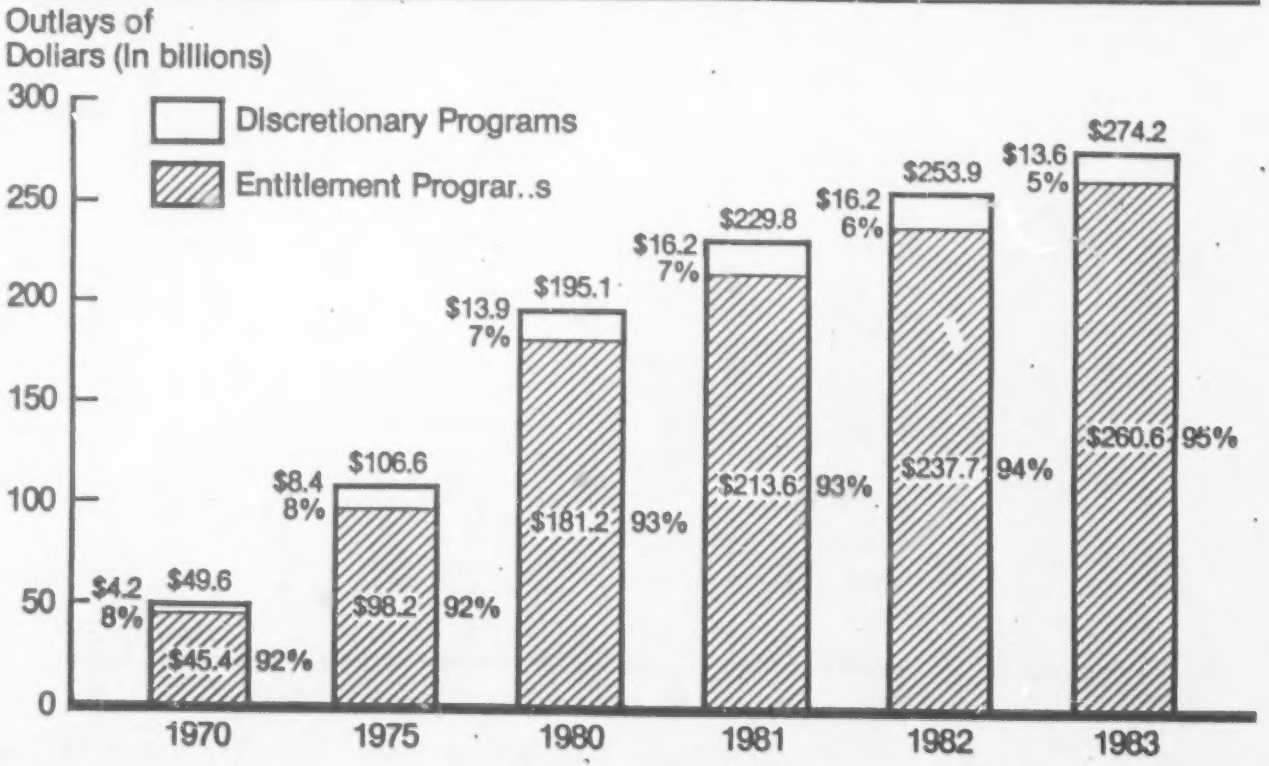


FEDERAL OUTLAYS
BENEFITING THE ELDERLY



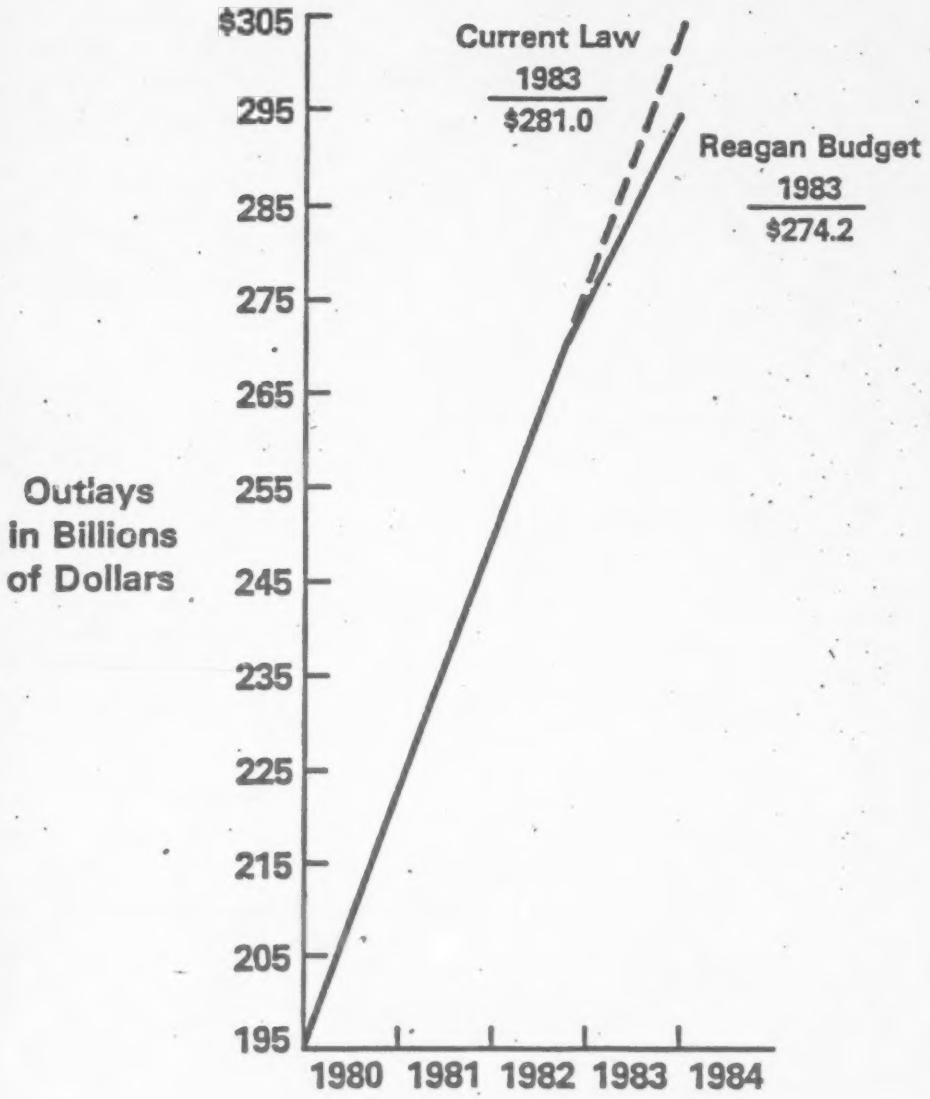
Department of Health and Human Services

HHS Discretionary and Entitlement Programs



Department of Health and Human Services

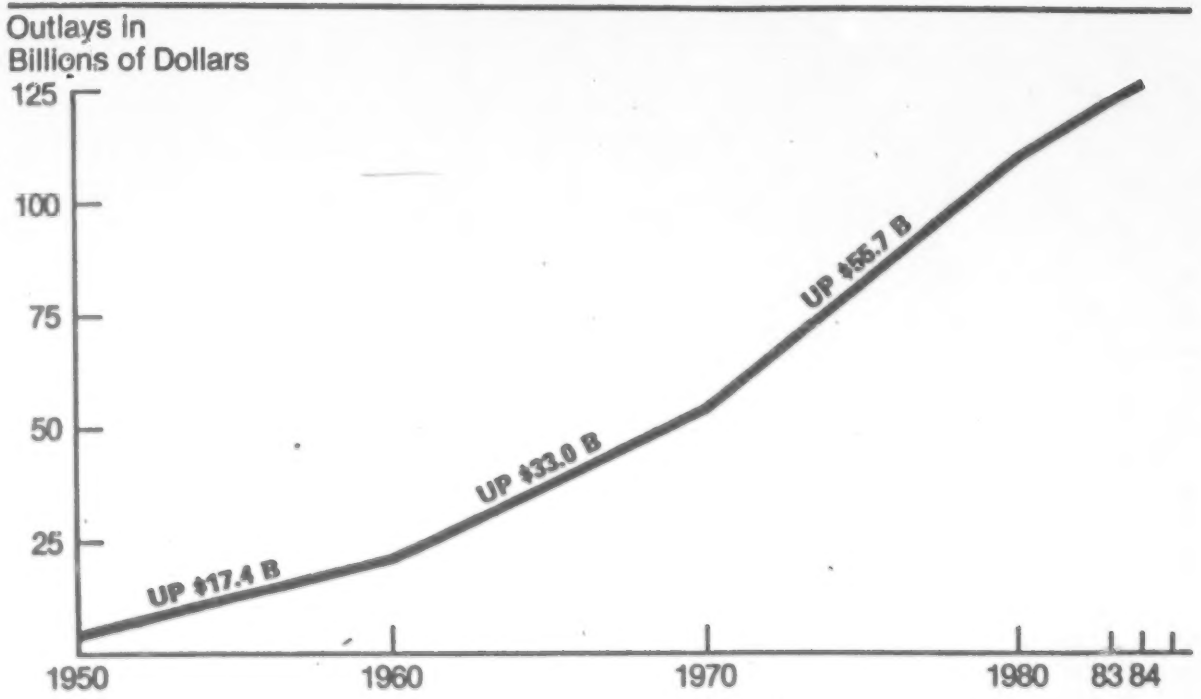
Impact of Entitlement Reforms on HHS 1983 Budget, 1980 — 1984



Department of Health and Human Services

Growth of HHS Programs in Constant Dollars, 1950 - 1983

(Outlays in 1972 Dollars)



Mr. BAILEY. Why is there a dropoff?

Mr. SWOAP. Because there are reductions we are implementing across the Federal Government as a whole. There are some reductions in the food stamp program and there are some reductions in the AFDC program. But again, I must emphasize that these are reductions not to needy people—to people who can demonstrate a legitimate need for public assistance.

Mr. BAILEY. Not to needy people but to people who can demonstrate legitimate needs.

Mr. SWOAP. But they are not reductions to people who can demonstrate a legitimate need for public assistance.

Mr. BAILEY. Now, wait a minute. They are not needy, but these programs—why are you not making recommendations on the outright removal or elimination of these programs, because they are demonstrating a legitimate need for a program but they do not really have a need, then the program is not good. That is what you are telling me.

Is that logic bad?

Mr. SWOAP. Yes, I think it is, Congressman, for this reason. The entire eligibility criteria for AFDC, for example, is a complex combination of variables. It has to do with who is in the family, are they employed, what is their income, are they receiving assistance from other programs, et cetera, et cetera.

What we are doing, as I indicated by pointing specifically to some of the proposals that we are making, is that we are targeting people who do have outside resources. If someone is living with an unrelated individual in their family or a stepparent, as we did with the proposals from last October, and that person has a relatively high income level, we think it should be counted. So those are some of the reductions that you see there.

Mr. BAILEY. We probably do need to look at some of those areas and study them. "Justice" is a very important word. I just hope—and I do not think you are, incidentally, doing anything about it. You are recommending some 18 percent changes in your budget cuts this year in title XX programs. That is a question the staff is very interested in.

Your changes last year were 20 to 25 percent, is that right?

Mr. SWOAP. Yes, sir, I believe so.

Mr. BAILEY. Much of the rationale used was criticism of administrative costs, et cetera. What in terms of this Nation's economic problems and the plight of her people today is that 18 percent based upon? And is there a relationship here that the States are going to pick up? For example, if we did everything you wanted us to do, our Pennsylvania State tax base, which by the way kills these people—it hurts these people much more than the Federal tax base does, because of the nature of the tax structure—would have to increase 10.1 percent.

How do we do that? I mean do you want more senior citizens out there without a home that they can maintain because property taxes have increased? How do we resolve that?

If you look at the result of the income—let us talk about a different definition for that word "income transfer." If you look at the impact and changes in these programs, it really does appear that

you are simply shifting responsibilities to a tax base that is even less able to deal decently with the problems people have.

Did you address that in your statement at all, that analysis? Do you know the point I am making?

Mr. SWOAP. Yes, sir, I think I do, although I think it has a number of—again some——

Mr. BAILEY. I am not advancing a proposition. I am asking you to respond to a question. I do not know. It just appears to me that we are going to push somebody down and kick them a little harder, and if you expect the States to pick up on these programs, those State tax bases play a very crucial role in the percent of the Nation's gross national product related to overall taxation.

Mr. SWOAP. Yes, but that assumes that the State must automatically pick up the entire amount of the reduction, and I think from the earlier testimony we have pointed out——

Mr. BAILEY. There is the rub. I will tell you what it is going to do.

Mr. SWOAP. May I finish?

No. 1, the administrative savings that will result by not going through the lengthy process of shifting the program to Washington and back again to the states with the extensive and cumbersome nature of——

Mr. BAILEY. Tell me how we ship a program back home. I drive back and forth every weekend. I go to hometown meetings. I do not know if that is productive work or not. I do not know how you evaluate a Congressman's services in terms of the nation's productivity. Productivity is a mighty hard word to define.

How do you ship a program around?

Mr. SWOAP. You do that with the very concept proposals that this administration has been making since it entered office, which is either a block grant or a direct return to the States of both the authority and the revenue sources to enable them to carry out the program.

Mr. BAILEY. I think there needs to be some work done on this authority issue. And I tell my people back home if they ship this program—how they package and bind one up I do not know—but if they ship it up to Harrisburg, our State capital, as opposed to Washington, and back or from Washington to them as opposed to Harrisburg to them, and maybe Harrisburg and down here and then back, I do not know but am I guaranteed of efficiency increases there?

Mr. SWOAP. All I can guarantee you is that the inefficiencies and the redtape that accompany the transit to Washington and back will be either removed or significantly reduced, and that in fact it should be more efficient and effective at the State or local level because they are much closer to the problem.

Mr. BAILEY. I am glad to hear you finally go on the record and admit that what we are talking about here is an experiment as opposed to a guarantee, and your adjectives are very well chosen.

Mr. SWOAP. I do not believe I used the word "experiment." I will have to go back and check the record.

Mr. BAILEY. The words that you used I will take them; they are fine from my point of view, because I think we are not dealing with a guarantee. We are going to deal in some cases with increasing

the costs, and I hope that is not so. I think it is just a pressure to sweep a problem under a rug. I really do. I do not think there is much innovative about it at all.

Mr. SWOAP. Where would the increased cost come from? From where would the increase derive?

Mr. BAILEY. I do not know. I am saying I do not think we know. I just do not know if state governments necessarily are that much closer, you know, especially in large states, are that much closer in terms of geography, I understand that. But in this modern day of communications the physical closeness of the capital is really not the issue. We are talking about administrative efficiencies experienced in administering programs and that kind of thing.

I think that is a very nebulous world, and I just would hope that—I think what is being done here is—I do not want to argue with you or quibble—I think it is a political pressure to in effect come up with a way of doing away with things that you philosophically just flat do not believe in.

I could get into cost effective programs for you, but I am not going to do that. I sat on the Social Security Subcommittee and questioned Mr. Stockman on that issue. Programs that pay money, that help us get people off of disability and back to work—we lined them out of the budget. It does not make any sense to do that. They paid us back the money for the investment we put in. But they are gone, and they are gone and they are eliminated because of philosophical reasons.

And I just disagree with you. I do not think that is the way to govern. But those are personal views.

Mr. SWOAP. Could I just respond with one further item, because you did ask what is the effect, what is the product, what is the thing that we are looking for. And as you know, one of the things we are looking for is a major reduction in inflation levels in this country as a result of the economic program of the President.

Mr. BAILEY. And you want to know one of the best ways of doing that?

Mr. SWOAP. One of the best ways of doing it—well, go ahead.

Mr. BAILEY. Human resources, investment in people, things like education. Yes, sir, absolutely. High technology society. Big future out there. Let us roll on it. Let us go. Let us invest in people.

Mr. SWOAP. Well, this is the point I was about to make, that because of the changes that have occurred in the last 18 months in this country we have seen inflation decline from 14 percent in October of 1980 to——

Mr. BAILEY. You do not want to get into that.

Mr. SWOAP. But the important point, Congressman, is this, and that is the additional purchasing power for people on fixed or limited incomes. In just looking over the 3-year period between 1982, 1983, and 1984 we will triple the amount of additional purchasing power that will be available to the typical AFDC family of four solely because of the inflation reduction. And if we can do that——

Mr. BAILEY. I think you are going to find——

Chairman FORD. Mr. Bailey, could we close this dialog out and let me recognize Mr. Matsui, since the Under Secretary has already accepted the responsibility for the recession, and high interest rates, and high unemployment and all of the good things?

Mr. SWOAP. I would just like to dissent from that for the record.

Mr. BAILEY. Well, just one.

On the child enforcement fees you have a recommendation of changing that from 10 to 6 percent. You know, we tried to make some changes that would put an element of flexibility into that giving states an option.

Is there any way you can see your way clear to support that point of view?

Mr. SWOAP. I think we are very close to where you want to be. In fact, what we are doing is combining our old proposal with your new proposal and providing the option to the States to do it either way, to collect it out of these child support collections or out of the amount owed. And the problem in taking it from the amount owed is that in effect it creates a new burden which is actually precluding collections. So what we are trying to do is to give the states as much flexibility as we can, and I think our proposal does that, which is, as I say, to do it either way, the old reconciliation way or the new 6 percent way.

Mr. BAILEY. I thank you, Mr. Chairman.

I just thought Mr. Moore, my lovable friend from Louisiana, was building such a great record there I wanted to make a couple of changes in it.

Chairman FORD. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. Mr. Swoap, I would like to ask you some questions about the SSI formula change that occurred during reconciliation last year. As you know, we changed the formula and I guess it will go into effect on October 1. Instead of a 1-month prospective formula, we will go to a 2-month retrospective or carryback formula.

I offered an amendment last year to change that to a prospective 2 months in terms of coming up with a new formula for SSI.

The reason for that recommended change was the request of the State of California and other States who pay supplemental benefits as well. We feel it will cost us some $20 million at the State of California level, and of course, at the Federal level nationally it would cost some $70 million. At least, these are the estimates we have come up with.

Mr. SWOAP. To do what?

Mr. MATSUI. To continue with the situation as it is. What we would like to do is change the formula to go to a 2-month prospective basis so as to include increases in the social security benefits, the COLA and whatnot, which would not be taken into consideration if you look back and carry back the 2-month period.

My amendment is in conference right now. I understand the administration has not yet taken a position on this, and I am wondering why, because I believe it will have a benefit in savings of about $17 million.

Mr. SWOAP. Actually no, Congressman Matsui, for this reason. And I think probably the reason we have not had a position—it is under development between us and OMB. So not speaking formally for the administration at this point, but solely on the basis of my experience with this program, there are really two elements that you have touched upon.

One is the accounting method, whether you are going to do it prospectively or retrospectively. The other is the question of how do you treat simultaneous COLA adjustments when an individual has both SSI and social security income. Those are severable. They need not both proceed together. In other words, going back to prospective reimbursement is not the only way to solve the COLA problem.

We think that there is a way to solve the COLA problem on the duplicate receipt of the benefit increase for the two-month period without going back to prospective accounting. The problem with prospective accounting is this: whenever you are projecting into the future what a person's eligibility situation might be, in terms of their income and their family situation and so forth, you run the very high risk of significant error. And the SSI program has been plagued with a very high incidence of errors ever since the Federal Government took it over in 1974. That rate has been coming down but it has not been coming down fast enough.

One of the fundamental reasons for a high error rate is prospective accounting because you are guessing. You are projecting into the future, and if you guess wrong, you have to go back and recoup it and readjust and try to correct the error. Retrospective accounting has the substantial merit that you are measuring a known set of circumstances, a known series of events.

Mr. MATSUI. I understand that, and we adopted it for that reason originally.

Mr. SWOAP. So if you do implement the 2-month prospective without any change, we believe it will have added costs of about $50 million. If you enact the COLA revision to overcome the double-increase problem in the 2-month period, you will save in fiscal year 1982 about $20 million and in fiscal year 1983 about $40 million that retrospective accounting was originally intended to save. So again, as I say, we believe there is a way to do it that addresses only the COLA problem, retains retrospective accounting and at the same time, saves about $40 million without going to the costs associated with the prospective proposal.

Mr. MATSUI. Just so I understand you, you are disputing the figures that I received from some of those State and——

Mr. SWOAP. Yes; because they combine the two elements. They combine the COLA savings with the prospective costs. And my point is you can still get COLA savings and keep retrospective accounting.

Mr. MATSUI. OK. Now, when do you think you will have your formula developed so that we take a look at it, because the matter is in conference.

Mr. SWOAP. I think it will be within days. It will be in time for the conference to undertake its deliberations.

Mr. MATSUI. Thank you. Let me just ask you one more set of questions, if I may.

Under the payment process for AFDC and medicaid benefits the Federal Government pays its share to the States prior to State issuance of a benefit check. Under your Department's new proposal there would be a delay in drawdown of Federal payment. The States, of course, are very concerned about that because of fiscal constraints, and second, with the constitutional prohibition against

having a deficit at most State levels. It would be very difficult for the States to finance a float from the time that the payments are made by the State to the time the Federal Government should actually send a check covering that situation.

Mr. SWOAP. Could you be more explicit as to which proposal you are addressing? Are you talking about a financial accounting change?

Mr. MATSUI. I guess we are really looking at an accounting situation more than anything else.

Mr. SWOAP. I think what you are describing is something that has already gone into effect and been accepted by and implemented by most of the States on a fairly satisfactory basis, and that is the so-called DFAFS system which is an acronym for the departmental Federal assistance financing system. It is the unified cash-assistance system.

Mr. MATSUI. It is my understanding that it has not been implemented. Maybe I am not——

Mr. SWOAP. My staff has handed me some correspondence which I see is between yourself and the Secretary on that subject, and I believe we do have a meeting underway between our management and budget people and yourself in order to look at this question.

Generally speaking, Congressman, I think the point needs to be made that if there has been a cash float advantage to anyone over the last 10 or 20 years in the field of Federal-State financing, it has been on the side of the States. The States have been in a position, because of the various methods and timing, of providing the funding, and they have been in a position to realize the results from cash float. And these changes are only the efforts of the Federal Government to bring it back into balance.

Mr. MATSUI. That is where I would have some problems. I agree with the first part of your statement that, in fact, the state probably has had the advantage of the float. But I do not know if what you are proposing would put it back in balance, because I think the Federal Government then would end up with the benefit of the float.

I hope there is room—and I do not know what compromise can be reached, but I certainly can tell you it will have a tremendous effect upon the State of California, at least according to the figures that I have seen. They have calculated it will cost the State $60 million the first year and $5 or $6 million every year thereafter. And with other cutbacks occurring and with the constraints at the constitutional level, it would be very difficult for the States to do anything except cut additional programs. And I know that is not the intent.

Mr. MOORE. Would the gentleman yield?

Mr. MATSUI. Yes.

Mr. MOORE. I expressed interest in your bill, and I have also been in contact with the department. And my State raises the same issue. I am not looking at it so much as a matter of how much float money the state will lose and making a profit off the money being deposited. I was looking at someone going to the bank and cashing a check and the check being turned down because the money is not there.

The information I was given was the fact that 17 States have already voluntarily entered into this type of program they are now proposing and have had no problems. Is that right?

Mr. SWOAP. That is correct.

Mr. MOORE. My State is not one of them.

Mr. MATSUI. Yes; there may be some States, States like Utah and some of the others who might not have that particular problem. California, Louisiana, and some of the others might find there are significant problems, since we do have more recipients than some other States.

So I would not want to say, because 17 States have done it that it would be acceptable in California or some of the other larger ones. So I hope that you will take a look at this because it is something that we do want to resolve in an amicable way, and one that California is very interested in. As a former secretary in California, you should feel it is important, because maybe in 6 or 8 years you may be moving back.

Mr. SWOAP. That is entirely possible. I hope I never become a Fed in the way that term is often used. But I would say this, Congressman, as well. This question, among many others, is one of the reasons for the President's new federalism proposals. And if we, in fact, do return AFDC and the food stamp program to the States, then obviously, those kinds of complex interactions will be minimized and the States will be in a position to undertake the programs on their own.

Mr. MATSUI. You did not have to add that.

Chairman FORD. I do not think the Governors or the States are going to endorse having these programs shifted to the States at all. Are there any further questions? Mr. Moore?

Mr. MOORE. Mr. Rousselot, a member of the subcommittee, could not be here today. He has some questions he would like to have inserted in the record at this point and have the department reply for the record.

Chairman FORD. They will be made a part of the record and we will get the Secretary to respond.

[The questions follow:]

THE SECRETARY OF HEALTH AND HUMAN SERVICES,
Washington, D.C. May 3, 1982.

Hon. JOHN H. ROUSSELOT,
House of Representatives,
Washington, D.C.

DEAR MR. ROUSSELOT: Thank you for your letter of March 10, 1982 regarding the implementation of P.L. 96-272, the Adoption Assistance and Child Welfare Act of 1980. I am pleased to know that Department staff were helpful and informative about the implementation of the Act. I am also responding to the questions you sent to me on March 25, 1982 as a result of the Public Assistance and Unemployment Compensation Subcommittee hearing held on that date.

The first point raised in your letter of March 10, 1982 concerns the status of final regulations for P.L. 96-272. Though I have also responded to this question in the attachment, I want to stress that we do not intend to hold publication of regulations pending action on the Child Welfare Block Grant proposal. We are in the process of final review on the regulations and intend to publish them in the very near future. Until the regulations are published, as I indicated in my earlier letter on this subject, we believe that we have put in place as reasonable and effective a system as possible to implement the highly prescriptive and detailed provisions of the Act.

Your second point states that it appears that we are operating P.L. 96-272 as a block grant. It is my view that the Department has implemented P.L. 96-272 as a discrete program and not as a block grant program. There are State plan requirements, prescriptive and detailed program requirements and State certifications of compliance for additional funds under section 427 which are being validated by the Department.

With respect to your concern about the foster care reforms and incentive funds provisions contained in section 427 of the Act, the Department has enabled each State to make an initial determination of the extent to which it meets these provisions. In order for a State to receive additional funds under section 427, a State has to review and assess its situation. Based on this assessment, it either executes or does not execute a State Certification of Eligibility for Additional Funds under section 427. The form that is used by the States to certify compliance with section 427 closely follows the provisions of the Act. It is our view that the law is relatively clear as to what is required of a State to be eligible for additional funds under section 427.

We are prepared to conduct section 427 compliance reviews of all 34 States which certified their eligibility to receive additional funds under these provisions in fiscal year 1981. We did conduct field tests of the section 427 compliance review process in Missouri, Connecticut and Utah during February.

This experience permitted us to test in actual practice the processes, procedures, and case record sampling methodology which we intend to utilize to validate a State's certification of compliance with section 427. Once refined, these protocols will be used to review every State which certified its compliance with section 427.

I would like to share our thinking with respect to the three States participating in this effort in response to your question regarding our choice of States in the field test. First, we wanted States to volunteer to participate in the field test. Secondly, three of our regional offices (Kansas City, Denver and Boston) had 15 States which certified their compliance with section 427 in fiscal year 1981.

To assist those regions with the heaviest work load, we decided to hold field tests in Kansas City, Denver and Boston regional office geographic areas. The final assessment process, like the field test process in the three pilot States, will be used to validate all States' certification of eligibility for additional funds under section 427. The review process conducted in the field test and the written results of this experience were delivered to your staff on April 23.

As a result of the pilot reviews, we have revised the section 427 review procedure. One major revision provides States with the option of conducting a joint Federal/State case record review. The revised approach allows States to choose to:

Conduct their own case record survey, with subsequent Federal validation of the State's sample review;

Conduct as in the field test, a Federal review of a random sample of the State's case records; or

Conduct a joint State/Federal review of a random sample of the State's case records.

In addition, the Case Record Survey was revised so as to elicit more specific information concerning the sub-elements of the case plan, periodic review and dispositional hearing. This will provide clearer guidance to the review team as to what is required in each major element and sub-element of the Case Record Survey.

Another revision placed more emphasis on the administrative level review. This would permit the review team to more fully explore and understand the State's administrative arrangements, policy guidelines, practice procedures, and legislative framework. There would then be a subsequent review of cases (using one of the three options above) at a later date.

This revised approach to administrative level review will help determine the degree to which written policy guidelines shape the practice decisions of State workers evaluating the necessity for foster care placement. We have not yet determined whether our regulations will require States to have such guidelines or whether we will give States the flexibility to make this determination. You can be assured, however, we will fully consider your views on this matter as we finalize our regulations. In the meantime, we will continue to explore the issue in our section 427 review procedures.

The level of compliance or non-compliance would remain the same as stated in your letter. It is important to note that any State which is found in conditional compliance (66 percent to 79 percent) with respect to its case records must reach a level of at least 80 percent compliance in its case records the following year if it is to

retain its eligibility for additional funds under section 427. I believe that these levels of compliance are reasonable. To be any more stringent would be counterproductive and very possibly deter progress in achieving the goals of P.L. 96-272.

As of this date, Missouri and Utah have been found in full compliance with section 427 for both fiscal years 1981 and 1982. Regional staff are still analyzing the data from Connecticut so no decision has been made regarding this State.

I have enclosed our responses to the series of questions which will be included in the official record of hearing on the implementation of P.L. 96-272 (Tab A). In addition, my staff reproduced and delivered to your staff on April 23, copies of the revised section 427 review materials. The title IV-B Child Welfare Services Plans for fiscal years 1981 and 1982 will be sent to you under separate cover. Child Welfare Services Plans were not required by the Department in fiscal year 1980, and therefore no plans are available.

I look forward to your continuing interest in this program.

Sincerely,

RICHARD S. SCHWEIKER,
Secretary.

Enclosure.

STATEMENT OF CONCERN OVER THE DELAY OF FULL IMPLEMENTATION OF PUBLIC LAW 96-272

As you know, Mr. Undersecretary, in 1980 some alarming statistics regarding our nation's children showed that half a million children were in foster care homes. Of these, almost half had been there for 2 years, roughly 100,000 had spent more than 6 years in foster homes, and 25 percent were waiting to be adopted with no homes to be found. But in June of that year, after 5 years of intensive work, Congress enacted the Adoption Assistance and Child Welfare Act, thereby providing safeguards for these children in foster homes.

I must express my strong concern that the intent of the Congress in regard to Public Law 96-272 be fulfilled and fully implemented. It was for the protection of the children I just mentioned that Congress put specific definitions and guidelines in the law. I do not want to see the intent of this law watered down or weakened through the regulatory process.

I look forward to the regulations coming out in the next 6 weeks, and I intend to review the contents of the regulations very carefully to ensure that the objectives of Congress, as enacted in the Adoption Assistance and Child Welfare Act, are carried out.

Question 1. Last evening at 7:00 p.m. a letter from Secretary Schweiker regarding the Adoption Assistance and Child Welfare Act of 1980 [P.L. 96-272] was hand delivered to my office. In that letter, I was informed that a Notice of Proposed Rulemaking [NPRM] for the program segment of this law and a final regulation for the fiscal segment will be published in about six weeks.

I would like to know why six more weeks are needed to publish these regulations. It has now been 22 months since Congress enacted P.L. 69-272 and over one year since the public comment period for the regulations has ended. I was informed that the regulations were held up because of the proposed child welfare block grant. You also have a proposed child welfare block this year. I certainly hope you will not continue to withhold the regulations for current law any longer.

Answer. We do not intend to hold publication of regulations for P.L. 96-272 pending action on the Child Welfare Block Grant proposal. We are in the process of moving toward publication as quickly as possible.

Our earlier estimate of six weeks for publication was based on the need for senior level review of the proposed regulations within the Department and at the Office of Management and Budget. The proposed rules are drafted and have been reviewed by middle-level staff. The Department's senior staff are reviewing these regulations currently and have accelerated the process as much as possible. We hope to have these rules out of the Department and at the Office of Management and Budget very shortly.

I regret that it has taken so long to publish new regulations on this program. However, the time we have spent reflects, in part, our efforts to assure that the Department publishes regulations which fully and effectively implement the intent of Congress.

Question 2. In Secretary Schweiker's letter to me, he specified that 20 states have already developed approved plans for the new Title IV-E Adoption Assistance Program. I would like to know which states these are.

Answer. The twenty States with approved title IV-E plans are as follows: Arizona, Arkansas, Colorado, Georgia, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, Oregon, South Dakota, Texas, Washington, and Wisconsin.

Question 3. On March 10, 1982, I sent a letter to Secretary Schweiker requesting detailed information regarding implementation of P.L. 96-272. I am especially concerned about the self-certification process the department is using. I requested a written report on the pilot test of the validation study conducted during the early part of March. When may I expect that written report and a copy of the certification criteria to be utilized for fiscal year 1982 incentive child welfare service funds?

Answer. The letter to which these answers are attached, contains information on the pilot survey which we hope responds to your request for information. As noted in that letter, we expect to use the same certification criteria for fiscal year 1982 surveys as for fiscal year 1981 surveys. These criteria are based on the 1980 law.

Question 4. One recent point that has really concerned me is a statement in the budget document "Major Themes and Additional Budget Details" that, "Under the current system [of the Adoption Assistance and Child Welfare Act], states do not have the flexibility to direct their efforts to permanently place children rather than continue foster care arrangements."

I believe this statement misrepresents P.L. 96-272. Having participated in the markup of this bill, I am aware that we instituted specific incentives in the bill to utilize flexibility. We also included provisions for alternative services which will move children back into families, allowing those states which are successful in reducing foster care to transfer unused foster care money into these alternative services. With these provisions, why does the administration claim there is not enough flexibility under the law?

Answer. The language you cite may have been somewhat of an overstatement. It is true that P.L. 96-272 introduced provisions for added flexibility. However, the retention in that law of categorical program restrictions, and particularly the retention of different funding mechanisms for different categorical program areas, still restricts the States from full flexibility in targeting funds to the most effective services.

The intent of the Child Welfare Services Block Grant is to provide the States with this greater flexibility. Without the categorical program and funding restrictions, States will have the incentive and the flexibility to direct resources toward the most cost-effective services, i.e., those which take children out of foster care and place them into permanent homes.

Question 5. Your proposed funding level of $380 million for the child welfare block would effectively eliminate the incentives and flexibility we created to turn around the child welfare system. The vast majority of those children's resources would be consumed by the provision of foster care to protect and care for neglected, abandoned, abused children. You would be taking away the additional necessary resources to provide the cost-effective services which move children back into families.

Answer. No, that is not our intent. The intent of the proposed block grant will be to provide the States with greater flexibility than is now available even under the 1980 law to shift resources into the most cost-effective services.

In regard to the specific proposed funding level of $380 million, this amount was estimated both in terms of what we consider an adequate level of funding for these programs, and in the context of the President's overall program for economic recovery.

Question 6. Your testimony states your proposal would maintain the protections for children. However, we do not have that proposal before us at this time, so we have no way to question or discuss if or how those protections would be maintained. When will you be presenting your legislation to Congress for our consideration?

Answer. While I cannot give you a specific date, I assure you that completion of this proposal is a very high priority. We are in the final stages of decision-making on this bill, and expect to send it to the Congress in the very near future.

Question 7. Why does the Department continue to ignore the entitlement nature of the foster-care program? In your budget documents and your testimony you represent the funding reduction as 16 percent below the fiscal year 1982 level. We included specific language in the Continuing Resolution which preserved the entitlement for foster care children. Therefore, your block grant proposal cuts over $124 million from the fiscal year 1982 level (25 percent) and represents a 47 percent reduction from the levels Congress recommended be available for implementation of the child welfare reforms in fiscal year 1983.

Answer. The fourth Continuing Resolution, which makes funds available through September 30, 1982, provides a maximum of $300 million for foster care expenditures in fiscal year 1982. The Department is operating on the assumption that these are the only funds that will be available in fiscal year 1982.

Chairman FORD. Mr. Secretary, also, on the AFDC title XX low-income energy assistance and the supplemental security income, there are some five bills that are listed on the press release that was sent out, and you have copies of them. We would appreciate it very much if you would let us know your disposition of those particular bills that are before the committee right now.

Mr. SWOAP. Yes, sir.

Chairman FORD. We want to thank you for appearing before the subcommittee. In fiscal year 1982, this committee received some 10 percent of the total cuts in the first round of budget cuts by this administration. We certainly feel that now, since the President is concerned about his image problem, that we want to serve notice to the administration that we are willing to assist him in trying to straighten that image out, if he is, in fact, concerned about the children of this country, the elderly, the unemployed, as well as the handicapped and the disabled.

We stand ready to take a closer look at the budget cuts for fiscal year 1983 and we also are ready to restore the types of funds that will be needed to strengthen these programs and clean the President's image up real good.

Mr. SWOAP. I appreciate that, Mr. Chairman. And let me simply respond by saying we welcome that kind of attention to the problems, and we think that if you do analyze the nature of the modifications that we are proposing, you will see that they are directed toward people who do have other resources of their own. We have a joint commitment to improving the economy of this country so that the most needy of our Nation will benefit by that economic——

Chairman FORD. I am sure that when the President stages some of these events, the real people will be there like they were in New York the other night, and they will get the message across.

Thank you.

[Whereupon, at 1:10 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

ADMINISTRATION'S FISCAL YEAR 1983 LEGISLATIVE PROPOSALS FOR UNEMPLOYMENT COMPENSATION AND PUBLIC ASSISTANCE

WEDNESDAY, APRIL 21, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE
AND UNEMPLOYMENT COMPENSATION,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[Chairman Ford's prepared opening statement follows:]

OPENING STATEMENT

Today, the Subcommittee on Public Assistance and Unemployment Compensation will continue its hearings on the administration's fiscal year 1983 budget proposals for programs within the jurisdiction of the subcommittee: Aid to families with dependent children [AFDC]; supplemental security income [SSI]; title XX social services; child welfare/adoption assistance/foster care; low-income energy assistance; and unemployment compensation.

In addition to the administration's proposals, the subcommittee will receive testimony on a number of bills affecting the programs within the subcommittee jurisdiction. These bills were summarized in the press release announcing the hearings.

Last year, the Congress passed most of the budget cuts and program changes recommended by the administration. For the public assistance and unemployment compensation programs within this subcommittee's responsibility the reductions total some $4.2 billion for fiscal year 1982 and $5.9 billion in fiscal 1983. The President's budget recommends additional cuts in public assistance and social services programs of $2.9 billion in fiscal year 1983.

In my judgment, any assessment of these recommendations must begin with an examination of the impact of last year's changes. One year ago, we were assured by the administration that the cuts in human services programs would not harm the "truly needy", and that the reductions were necessary only to assure that those persons capable of supporting themselves do so. We were also promised a speedy economic recovery and new employment for jobless workers.

Unfortunately, tragically, the administration's predictions have not been borne out. The budget reductions have created hardship for the poor, disadvantaged, and the elderly. Unemployment is at record levels and threatens to go higher.

This subcommittee, and the full Ways and Means Committee, have held a number of hearings around the country to assess the impact of last year's budget cuts on program recipients, social service providers, and State and local governments. On March 25, the subcommittee heard from administration officials on the President's proposals. Today, and during the hearing tomorrow, we want to hear from our colleagues in the Congress, public witnesses, and interested organizations.

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

Today the Subcommittee on Public Assistance and Unemployment Compensation will continue its hearings on the administration's fiscal year 1983 budget proposals for programs within the jurisdiction of this subcommittee—aid to families with dependent children [AFDC], supplemental security income [SSI], title XX social services, child welfare, adoption assistance and foster care, low-income energy assistance and unemployment compensation.

In addition to the administration's proposals, the subcommittee will receive testimony on a number of other bills affecting the programs within the subcommittee's jurisdiction. These bills were summarized in the press release announcing these hearings.

Last year the Congress passed most of the budget cuts and program changes recommended by the administration for the public assistance and unemployment compensation programs within the subcommittee's responsibilities. The reductions totaled some $4.2 billion for fiscal year 1982 and $5.9 billion in fiscal year 1983. The President's budget recommends additional cuts in public assistance and social services programs of $2.9 billion in fiscal year 1983.

In my judgment, any assessment of these recommendations must begin with an examination of the impact of last year's changes. One year ago we were assured by the administration that the cuts in human services programs would not harm the truly needy and that the reductions were necessary only to insure that those persons capable of supporting themselves do so. We were also promised a speedy economic recovery and new employment for jobless workers.

Unfortunately and tragically, the administration's predictions have not been borne out. The budget reductions have created hardship for the poor, the disadvantaged, as well as the elderly. Unemployment is at a record level and is threatening to go even higher.

Since we have a long list of witnesses who will be testifying before the committee for the next couple of days we certainly would like to get started right on time, and our first witness is one of our distinguished members of this panel, the Congressman from the State of California, Chairman Pete Stark.

STATEMENT OF HON. FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. STARK. Thank you, Mr. Chairman. I would request that my statement be made part of the record in its entirety and I would like to summarize it, with the Chair's permission.

Chairman FORD. Mr. Stark, the statement will be made a part of the record.

Mr. STARK. I am preceding my colleague, Mr. Glickman from Kansas, who will testify later today before the committee on a bill which we have introduced. It now has more than 60 cosponsors, and has bipartisan support. Our bill, H.R. 5911, excludes burial plots and burial insurance policies in determining an SSI applicant's resources.

I think it fair to say that the distinguished members of this panel understand that particularly among very poor people it may be indeed the only asset or only form of savings which a person has accumulated. Many elderly really want to have the dignity of not

being a burden on family or friends after death, and so to include this asset is perhaps overzealous accounting on our part.

I would urge the subcommittee, as a humane gesture, to allow this exemption. It is our understanding that it would cost less than $5 million a year, and I think the peace of mind to our elderly and our poor would far outweigh the minimum cost of that.

I would also like to commend to my colleagues on the subcommittee the chairman's bill, H.R. 5791, which I am sure he will discuss at great length later.

I would also like to call particular attention to H.R. 5871 introduced by my colleague, Mr. Matsui. It deals with an issue that 26 States, including California, find themselves faced with, and that is that the State constitution does not allow them to in effect write a check unless they have the money in the bank and if they could indeed have matching funds be available to the States at the time the State issues checks or warrants it would solve a problem that I see is shared by 26 States across the country.

Finally, I would like to commend to the subcommittee H.R. 5904 introduced by our colleague, Mrs. Schroeder of Colorado. It encourages States to modify the unemployment programs to allow partial unemployment benefits to workers whose work week has been reduced pursuant to a plan under which such reductions are made in lieu of temporary layoffs. This is a way to assist job-sharing, to keep people at work, to keep more people employed and it should have minimal costs. It is receiving bipartisan support and in my district it has received the support of both management and labor. I would commend its adoption to the subcommittee.

I thank the distinguished chairman for giving me the opportunity to testify this morning. I would be glad to answer any questions that he or the members of the panel would have.

[The prepared statement follows:]

STATEMENT OF HON. FORTNEY H. (PETE) STARK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman and fellow members of the Subcommittee, I am here with my colleague Mr. Glickman from Kansas, to testify in support of our bill H.R. 5911. This bill would exclude burial plots and plans from the assets test in determining SSI eligibility and—by reference—Medicaid.

Last fall, I heard from a number of my constituents who were informed by mail that they were no longer eligible for SSI and Medical. With the new regulation including burial plots as assets, they were informed that their resources exceeded the SSI eligibility limits. One letter which I received from a 74 year old woman, read in part:

I am a senior citizen and I have been informed by the Social Security office that I am no longer eligible for SSI payments for $109.70. The reason is because I have an insurance policy for funeral plan which will pay $1,000 when I pass away and one for $500, total $1,500. I have had these insurance policies since 1964. They told me that I should cash them in. But I talked to my insurance agent and he said I could not get the full payment on it at this time. I could only borrow money if I needed it, and in case of death then they pay the balance that is left.

But I don't want to do that because none of my children would be able to take care of such a big expense as a funeral.

I have a heart condition and high blood pressure and I could die suddenly and that would put them in a terrible predicament.

I am sure that the insensitive ultimatum of forcing many seniors to choose between SSI benefits or funds set aside for burial arrangements is not beneficial to their health. Such anguish must only exacerbate health problems, such as this woman's heart condition and high blood pressure. It is cruel to force people to make such a decision.

Such a planning disincentive is simply adding to the cost of various state and county programs. The cost of burials of the needy falls on state or county governments in over half of the states. In fact, recognizing that the burden would otherwise fall on them, most states already allow some funds to be set aside for burial purposes when individuals seek state welfare assistance. Mr. Glickman will explain this problem more fully.

In November, I introduced a bill to exclude burial plots and certain funds set aside for burial expenses in determining SSI eligibility. Mr. Glickman, also concerned about this problem, introduced a similar bill in January, for which he had 45 cosponsors. We then drafted a new piece of legislation, introduced with 26 cosponsors, (now more than 60). This is a bipartisan issue.

Our bill would eliminate prepaid burial arrangements in determining eligibility for SSI benefits, and cost the Federal Treasury less than $5 million per year. H.R. 5911 would exclude the following items from the assets test: (1) the reasonable value of burial plots and niches for the individual and immediate family members; and (2) insurance policies, irrevocable trusts, and arrangements or plans for burial or cremation of the individual or spouse of reasonable value (not to exceed $1,500) as determined by the Secretary of HHS.

I am concerned with bills which drain the Federal Treasury, but stress that for less than $5 million a year, we save seniors from an inhumane ultimatum, encourage thrift, and cut costs to the states and counties. The benefits of our bill clearly outweigh the costs. I urge my fellow members of the Subcommittee to favorably consider H.R. 5911, as have 61 of our colleagues.

Chairman FORD. I want to thank my colleague very much for his testimony before the committee today. The Chair will recognize Mr. Bafalis.

Mr. BAFALIS. Thank you, Mr. Chairman. This is something we should have done a long time ago and I want to commend the gentleman for bringing it before the committee. I have only one question.

Have you given some thought to setting a dollar limit on the value of that lot and not leaving it to the Secretary to make that determination?

Mr. STARK. I would have no real quarrel with this. Already, the bill excludes from the assets test, insurance policies, irrevocable trusts, arrangements or plans for burial or cremation of the individual or spouse of reasonable value—not to exceed $1,500—as determined by the Secretary of Health and Human Services. I think that it would also be a good idea to place a dollar limit on burial plots and niches for the individual and immediate family members of reasonable value as determined by the Secretary of Health and Human Services.

Mr. BAFALIS. In the interest of bipartisanship, I would be glad to join the gentleman as a cosponsor on this legislation.

Mr. STARK. I appreciate the gentleman's support.

Mr. BAFALIS. Thank you, Mr. Chairman.

Chairman FORD. Mr. Pease?

Mr. PEASE. I have no questions.

Chairman FORD. Mr. Moore?

Mr. MOORE. I have no questions, Mr. Chairman.

Chairman FORD. Thank you very much, Mr. Stark.

Mr. STARK. Thank you, Mr. Chairman.

Chairman FORD. The committee, in addition to the administration's fiscal year 1983 proposals in programs within the subcommittee's jurisdiction there are several other bills that the committee will receive testimony on from witnesses during our hearings. Those bills are H.R. 5226, by Mr. Gradison, H.R. 5791 by the Chair,

H.R. 5871 by Mr. Matsui regarding AFDC, and H.R. 5509 by Mr. Brodhead and H.R. 5911 by Mr. Stark, regarding the SSI program.

With respect to unemployment compensation, we will receive testimony on H.R. 5251 by Mr. Guarini, H.R. 5284 by Mr. Eckart, H.R. 5452 by Mr. Minish, and H.R. 5904 by Mrs. Schroeder, as well as H.R. 6085 introduced by the Chair.

At this time the Chair would like to call our next witness, Hon. James B. Hunt, Jr., the Governor of the State of North Carolina, and chairman of the Committee on Human Resources of the National Governors' Association. He is here officially representing the National Governors' Association.

Governor, I would like to personally extend a very cordial welcome to you on behalf of the committee. Thank you very much for taking time out of your busy schedule to come and be with us. We look forward to hearing your testimony.

STATEMENT OF HON. JAMES B. HUNT, JR., GOVERNOR OF THE STATE OF NORTH CAROLINA, AND CHAIRMAN, COMMITTEE ON HUMAN RESOURCES OF THE NATIONAL GOVERNORS' ASSOCIATION

Governor HUNT. Congressmen and distinguished members of this subcommittee, I want to thank you for this opportunity to be with you today. I have with me Larry Van Lare, who is the staff person for the Human Resources Committee of the National Governors' Association, and Dr. Ted Parrish of my staff in North Carolina, who works with me in this area.

I am very pleased to appear before you representing the Governors of this country on these crucial matters and to discuss our position with regard to the proposals contained in the President's fiscal year 1983 budget. With your permission, I will submit the full text of my remarks for the record and I will limit my remarks in order to have time for questions.

Chairman FORD. Your full statement will be made a part of the record and you can summarize it as you wish.

Governor HUNT. Thank you, sir. I guess of all the persons who would appear before you and other committees of this Congress, Governors recognize most clearly the necessity of balancing the budget, which means reducing deficits in your case and working toward that down the road. We also recognize clearly the critical nature of the economic problems that are confronting this Nation.

The Nation's economy is affecting every single one of our States' economies and those of our counties and our cities. States support proposals to manage programs more effectively. I want to commend this committee for an awful lot of initiatives in that area. We support the establishment of priorities for limited resources, but we cannot continue to bear a disproportionate share of this burden in terms of where the cuts are going to be.

Remember, States and local governments are already doing more with less. The administration has stressed that it has not reduced the total level of Government spending but instead has reduced the rate of growth. We have heard that many times. Now this may be true overall, but it is not the case for the needs tested programs or for programs of assistance to State and local governments.

There is a chart attached to my testimony. I think it is the second page from the back. I would like to call your attention to that, Mr. Chairman and members of the committee. The chart shows the level of Federal aid to State and local governments over the past 6 years. I particularly call your attention to the bottom line, the constant dollar line, the only one that is of value to us. It shows that in constant dollars, Federal aid has dropped from $68.4 billion in fiscal year 1977 to a proposed level of $49.9 billion in fiscal year 1983.

In this fiscal year, 1982, the budget authority for State aid programs dropped dramatically from about $106 billion in fiscal year 1981 to $78 billion. This is in 1 year. That is in a year when we are having economic problems all over this country. Dramatic cuts have come in funding for needs-tested income assistance programs as well.

The change is particularly stark in the AFDC program. I do not have to remind this committee that we are talking about dependent children. We are talking about families. In these programs the President is proposing a drop from $8 billion in fiscal year 1981 to $6.6 billion in fiscal year 1983.

Similar real dollar reductions have been proposed in other programs such as title XX, child welfare services and low income energy assistance. As Governors we supported in general the first round of budget reductions. Reductions in the Federal budget of about that magnitude were essential.

We said that if given the authority to make administrative changes we could absorb reductions of about 10 percent in all of those programs and still do the job. We were given cuts, however, that in many cases exceeded 25 percent. On top of that we did not get the administrative flexibility that we sought in many cases.

The key members of my administration, including every member of my cabinet, recently went all over our State. We held hearings, attended by between 700 and 1,500 people each, to talk about the block grants and the cuts and to listen to people. So we are still in the process of trying to figure what kind of flexibility we have and how we can make this new approach work.

We badly, desperately need time now to adjust to the cuts that we have already had before we consider new and heavier cuts in these same programs. I think there is a general recognition that some reductions have been needed, but I want to say to you, Mr. Chairman and members of the committee, we cannot turn back to doing things the way we once did in this country. We are not going to return to the days of sending people to the poorhouse or the county home.

I remember those days in my county and perhaps some of you do. America is not going to go back to that. Frankly, in the main we are talking about shifting costs. If the people of this country, through our Federal Government—do not do some of these things or carry our share of the load, then an inordinate share is going to have to be carried at other levels, many of which absolutely cannot take that up now.

We have learned that there are better ways of meeting human needs, helping human beings, which not only helps them but makes this a stronger country. I submit to you that we must find

ways to continue to meet those needs and it is clear to me that this committee feels that way. Indeed, you have had one proposal to that effect this morning from one of your members.

The job cannot be done overnight. I suppose that has been impressed upon us who are trying down at the grassroots level to carry through all of these changes, many of which are good. It takes time. It takes a lot more time than we ever imagined it would take.

I urge you today as strongly as I know how on behalf of our Nation's Governors to give us time to design new alternatives for meeting human needs. We have suggested to the administration and shared with your staff suggestions as to specific program improvements that may help reduce program costs without shifting those costs to the States. Many of the proposals we have made have been in the fields of medicaid and medicare, but we are exploring other areas. Our NGA staff under Mr. Van Lare and others is anxious to work with your staff as we figure out ways that this can be done.

Because of the deep cuts that have already been made and because of our need to adjust now to the things that have already been done, we want to urge you to put a freeze on further cuts in block grants and State and local assistance and, that you also continue the needs tested entitlements, at least at their current levels.

I am very aware that this Congress is wrestling with how we are going to get those deficits down, and that has to be the top priority for America right now. There are many things that you are looking at and the National Governors urge that all of those possibilities be looked at in terms of ways that the deficits might be reduced.

But this is an area that has already taken deep, deep cuts. Our States and our local governments are in a financially precarious position today.

Now, Mr. Chairman, if I may, let me turn quickly to some of the specific proposals before your committee. I want to say to this committee I feel very strongly about the child welfare legislation it approved 2 years ago. As an individual this is an area of great interest to me, and I think it is to this committee's eternal credit, to have helped to enact child welfare legislation to reduce: unnecessary institutionalization, the very high cost associated with too much institutionalization, and the terrible toll of abused and neglected children.

I think it would be unfair to both the children and the taxpayer to eliminate or to drastically reduce funding in these critical areas. Now, the proposal to create a child welfare block grant is before you. Governors have long supported the additional flexibility inherent in the block grant concept, but I want to voice to you two concerns that we have about this proposal.

First of all, the proposed level of funding reflects a cut of 27 percent from fiscal year 1981, but there is no evidence to suggest that the problems which are to be addressed by this grant have been similarly reduced. In fact, I would argue that the needs have increased over these couple of years rather than being reduced. In fact, Mr. Chairman, these are the kids, in a real sense, who have the greatest needs of all children.

Some of them, of course, are with foster families. They need adoption services. We need to be working harder than ever to help these kids. They are the kids who are shuttled around.

Second, the adoption assistance and foster care programs were created originally and are now funded as entitlement programs. I urge you to think very seriously about whether or not they ought to be included in a block grant because it would appear, certainly at first glance, that it would be contrary to the entitlement concept.

There may be some ingenious way by which you could make sure that enough funds go to these programs, perhaps based on an entitlement basis. There are so many of these children. We would want to provide *x* amount of money for them in a block grant. But I think this needs to be approached very, very carefully.

Another new block grant proposal before you would combine the low-income energy assistance program with the emergency assistance program for AFDC families. Block grant flexibility to meet emergency needs through a single effort is important, but the proposed cut here of over $600 million will undermine the effectiveness of both of these programs.

Now with respect to the AFDC program itself, the States have a number of concerns. Governors generally support the need to tighten rules which permit recipients to earn limited income and not lose AFDC benefits. We think those rules ought to be tightened. However, we support legislation that would give States flexibility to develop incentives that would encourage recipients to continue to assume responsibility for their support beyond the 4-month period mandated under present legislation.

We would like for that, at least, to be considered. We believe it is critical to maintain a strong incentive to work in the AFDC program itself because other programs in the medicaid and food stamp areas are now further reducing the rewards of work. It should be a fundamental principle of any welfare program that those who work are better off than those who do not work. Some independent analyses suggest that we have modified the programs to the extent that this may no longer be the case.

The final areas in AFDC concern proposals to penalize the States for AFDC errors in excess of 3 percent and to place a cap on administrative reimbursement at 95 percent of the fiscal year 1982 level. These are also areas in which we have great interest. Frankly, we are concerned that these two proposals may be mutually exclusive. We want to reduce errors and we must reduce errors, but it is obvious to the Governors that the changes in AFDC procedures last year on top of proposals for fiscal year 1983 will cause more, not less, administrative cost.

Again, I cannot overemphasize to you the kind of turmoil that is going on in terms of getting used to all of these changes. I have remarked to members of my Cabinet and others that in terms of what is happening in this Nation today we have three very historic things happening. We are looking at block grants. That in itself can take a decade to absorb and get used to. We are looking at tremendous cuts in many of these programs with all the consequences that have come down through the system and on to recipients. Now

we are looking at New Federalism. Any one of these three might take a decade to adjust to.

So I want to emphasize, Mr. Chairman, how much we are having to go through to get used to all of this. As I said, there is no question that our goal in this program and all assistance programs ought to be the lowest error rate possible, and I urge this committee to push hard on that.

But with the complexity of the Federal regulations and especially the frequency of changes that this Congress is enacting, Governors, I think, would question whether or not it is realistic to expect that States can reach a 3-percent error level within the near future.

I would remind you that the reduction in the error rate in the States has been very great over the last 8 or 9 years. I believe, it has gone down from some 17 percent to about 6 or 7 percent. So a lot of progress has already been made. But when you get closer to that bottom line you are getting to the point where it is harder to completely cut out errors.

Even the supplemental security income program, SSI, has consistently had an error rate of 5 percent or more despite the best efforts of the Social Security Administration to reduce it. I think many people point to SSI as an example of a well-run program. The Federal Government runs SSI altogether and yet that error rate has been over 5 percent. Many of us would say that SSI is a less error-prone program than is AFDC.

Mr. Chairman and members of the committee, as Governors we are prepared to do our part in error reduction. We have appealed to the counties and local levels of government throughout this country to help us. All of us must do this job together, but at the same time the Federal Government must accept the responsibility for sharing in the legitimate costs of this system.

We are all partners in this. We want to work with you and we are going to need to have this Congress look hard at ways that the provisions of the law can be simplified. We need to work with HHS and the administration to try to get waivers in certain instances. We are working very hard on that. We are not sitting back and ignoring this problem.

But we hope that you realize we are working hard and that you would give us your help. We trust the Federal Government would continue to accept a reasonable share of the administrative cost in this field.

Mr. Chairman, the actions of this committee will play a critical role in the congressional response to the fiscal year 1983 budget. I hope our comments and the materials that we will supply for the record will be of assistance. I pledge to you the National Governors' Association will give this subcommittee, the full committee and Congress every bit of help we possibly can to reach goals desired by the Nation, in addressing problems in administering these programs.

I particularly appreciate the opportunity to testify on behalf of the Nation's Governors. I will be glad to try to respond to your questions. We are available to you at all times in helping you deal with the budget this year, and these programs to help people who

need help, people who, in turn, are going to help make this a stronger country in the years ahead.

[The prepared statement follows:]

STATEMENT OF GOV. JAMES B. HUNT, JR., CHAIRMAN, COMMITTEE ON HUMAN RESOURCES, NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, I am James B. Hunt, Jr., Governor of North Carolina and Chairman of the National Governors' Association's Committee on Human Resources. I am pleased to have the opportunity to appear before you today to discuss the position of the NGA on the proposals contained in the President's FY 1983 budget.

Governors recognize the critical nature of the economic problems that confront the nation. We are, however, deeply concerned that the President's budget cuts too deeply into programs designed to meet the needs of the poor and the disadvantaged. While we are prepared to support proposals which will enhance the ability of the states to manage programs more effectively and to establish priorities for limited resources, we are convinced that we cannot continue to bear a disproportionate share of this burden.

Let me start, therefore, by placing the proposed changes in federal aid to state and local governments in context. First, as I am certain that this Committee knows, the Administration has stressed that it has not reduced the total level of government spending but that it has reduced the rate of growth. While this may be true in general, it is important to make clear that this is not the case for needs tested programs or for programs of assistance to state and local governments.

This chart (Exhibit A) shows the level of federal aid to state and local governments over the past six years. In terms of constant dollars, federal aid has dropped from a level of $68.4 billion in FY 77 to a proposed level of $49.8 billion in FY 83. While the level of aid had remained fairly constant from FY 77 to FY 81, it has dropped significantly over the past two years. The impact is even more dramatic if you look at the changes that were made in budget authority in FY 1982. In one year alone, the budget authority for state aid programs has dropped from $105.8 billion to $78.3 billion. These cuts have not yet been fully reflected in the projected outlay figures.

There have been similar dramatic changes in the level of funding for needs tested income assistance programs under the jurisdiction of this and other Committees. The change is particularly stark in the case of the AFDC program. The President's budget

proposes that AFDC expenditures at the federal level will drop from $8.0 billion in FY 81 to $6.6 billion in FY 83. Such a major reduction is far from the growth trend suggested by earlier witnesses before this Committee. Similar real dollar reductions have been proposed in other critical programs such as Title XX, Child Welfare Services and Low-Income Energy Assistance. In addition, the growth in other programs such as food stamps and Medicaid has been reduced below the level of normal inflation.

I would now like to turn to some of the specific proposals that have been made before your Committee. Let me begin first with the proposal for the creation of a Child Welfare Block Grant. While Governors have long supported the additional flexibility inherent in the block grant concept, we are concerned with two aspects of this proposal. First, the level of funding, $380 million, reflects a cut of over 27 percent from the FY 81 level. There is no evidence to suggest that the problems which are to be addressed by this grant have seen a similar reduction. Second, the adoption assistance and foster care programs were created originally and are now funded as entitlement programs, and including them in this block grant would be contrary to that concept.

Just two years ago, this Committee approved and saw enacted child welfare legislation (PL 96-272) to reduce unnecessary institutionalization, with its accompanying high cost, and to lead to the reduction of the terrible toll of abused and neglected children. It would be unfair to both the children and the taxpayers to eliminate funding for these critical services.

A second new block grant in the low-income energy assistance area would combine the $1.9 billion low-income energy assistance program with the $60 million emergency assistance program for AFDC families. Block grant flexibility to meet a variety of emergency needs through a single program is important, but the proposed cut of over $600 million will undermine the effectiveness of both programs.

It is important to note that this reduction is in addition to the Administration's proposal that energy assistance be counted as income for the purposes of determining food

stamp assistance and that AFDC benefits be reduced to offset the "duplicative" benefit represented by the energy payment. The Administration suggests that the AFDC and food stamp programs might be reduced by as much as $400 million by those changes. Many states, like North Carolina, view energy asssitance payments as designed to meet the increased costs of heating and cooling, and not as a duplication of other programs.

With respect to the proposed changes in AFDC itself, the states have a number of concerns. We have long sought additional flexibility in the design and operation of work programs, including work experience and expanded job search and we feel it is not appropriate for the federal government to mandate a single set of national programs which must be operated everywhere. In the past such approaches have led to additional administrative expense, increased frustration on the part of recipients and a lack of support from potential employers. For these reasons we would urge that you not approve additional mandates but instead to expand the authority of states to develop innovative programs to meet their own individual needs. In this respect, I would urge that you give special attention to continuation of WIN funding and to expanding the demonstration authority contained in the WIN demonstration legislation this last year. This is particularly true of the private sector grant diversion authority which is found only in those demonstration provisions.

Governors generally have supported the need to tighten rules which permit AFDC recipients to earn limited income and not lose benefits. We support legislation that would give the states flexibility to develop incentives that would encourage recipients to continue to assume responsibility for their own support beyond the four months period mandated under current legislation.

We believe that it is critical to maintain a strong incentive to work since many recipients are responsible for their own job finding efforts. We think it is also important to maintain the incentive in the AFDC program itself since other changes would modify the Medicaid and food stamp program so as to further reduce the rewards of work. It

should be a fundamental principle of any welfare program that those who work are better off than those who do not. Some independent analyses suggest that we have modified the programs to the extent that this may no longer be the case.

The states are also concerned that the proposed changes this year will add additional administrative complications and increase the opportunity for error. While some changes such as the availability of support allotments for the children of military parents deserve support, others such as the rounding down of benefits seem designed only to reduce benefits. With the help of the Human Resource departments in our states, the Committee on Human Resources has initiated a detailed review of these changes. With the Chairman's permission, I will furnish a copy of that review for the record. I believe that it will be helpful in better understanding the impact of these changes on the administration of the system and on the recipients of assistance.

The final areas in AFDC concern proposals to penalize states for AFDC errors in excess of three percent and to cap administrative reimbursement at 95 percent of the FY 82 level. We feel that these proposals are mutually exclusive. We want to reduce errors, but it is obvious to Governors that the changes in AFDC procedures last year on top of proposals for FY 83 suggest more administrative activity, and not less, and an accompanying increase in administrative costs. The federal government has already passed many additional costs in the work area along to the states without additional reimbursement. With the federal cap the needed state resources will not be available. The impact of the cap on administrative costs is described in more detail in Attachment B.

There is no question that our goal in this program, and in all assistance programs, should be the lowest error rate possible, but with the complexity of the federal regulations and the frequency of changes enacted by Congress, it is unrealistic to expect that states can reach even a three percent error level within the near future. Even the Supplemental Security Income (SSI) program has consistently had an error rate of 5 percent or more despite the best efforts of the Social Security Administration to reduce it, and welfare experts generally agree that the SSI program is substantially less error prone than the AFDC program.

As Governors, we recognize our responsibility in error reduction. We are prepared to do our part. At the same time, the federal government must accept the responsibility for sharing in the legitimate costs of this system until it can be simplified to the point

where it can be administered with a minimum of errors. We remain prepared to work with the Administration in a cooperative effort.

As I indicated in the introduction to my remarks, the Governors recognize the importance of fiscal restraint in the face of the current economic and budget situation. We have suggested to the Administration, and shared with your staff, suggestions as to specific program improvements that may help reduce program expenditures without shifting costs to the states or harming needy recipients. While most of these changes are in the Medicare and Medicaid program, other areas can be explored. I would be pleased to supply copies of our suggestions to this Committee.

The National Governors' Association, in a letter to the President on December 4 of last year and in action at its winter meeting earlier this year, has suggested the need to examine defense spending, non needs tested entitlements and tax expenditures as other means of reducing the deficit. I urge your continued support for such initiatives, and I hope that you will join with the Governors in calling for a freeze on further cuts in block grants and state and local assistance and the continuation of the needs tested entitlements at least at their current levels.

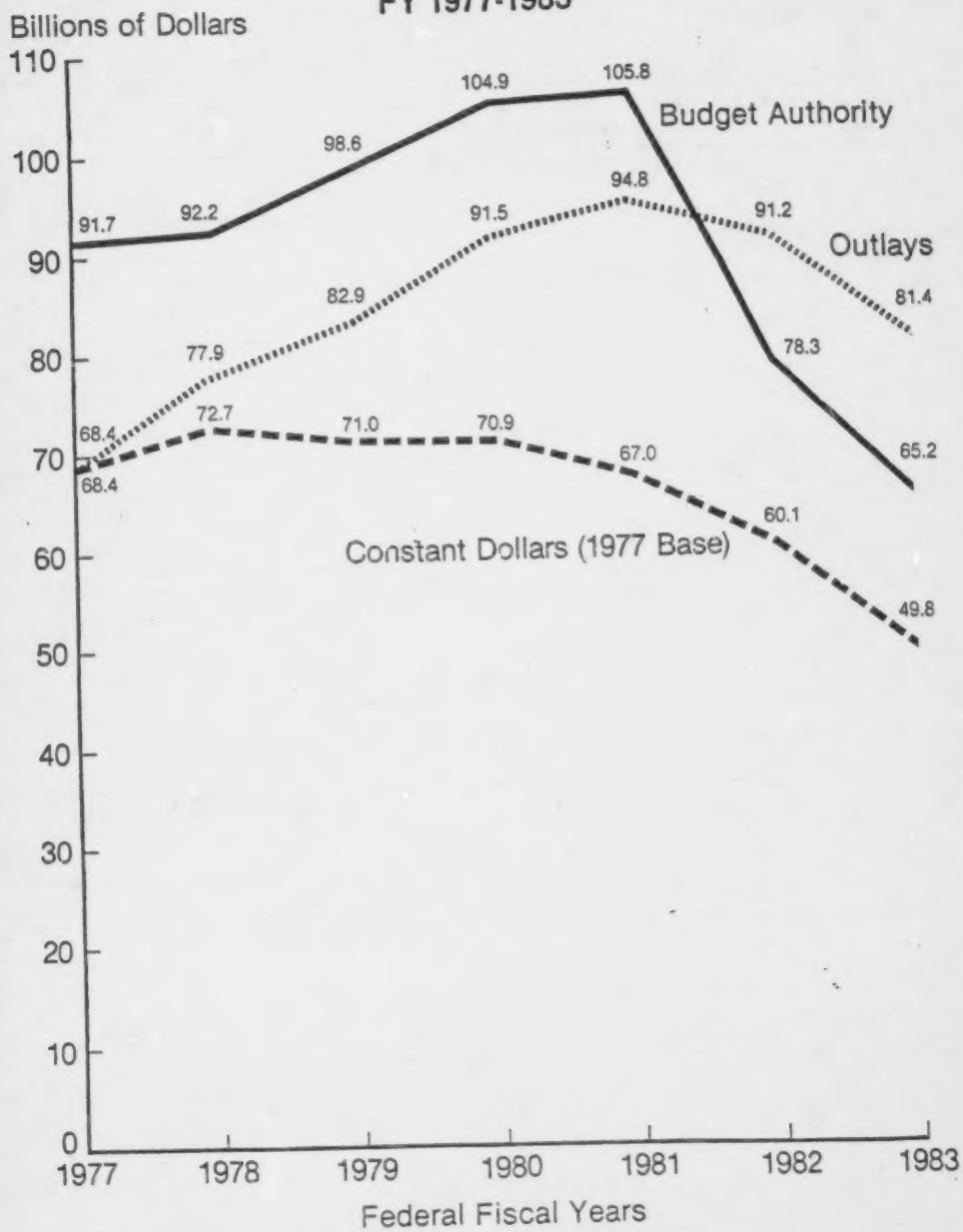
In closing, I would like to make brief reference to the federalism proposals which may be submitted to Congress in the near future. The Governors have been, and will remain, strong advocates of a simplified and improved federal system. We urge the Congress to give serious attention to the President's proposal. At the same time, we believe that the federal government should retain a major role in the financing of all income security programs. Only at the national level is it possible to equalize among the states the impact of poverty and to offset the costs of economic crisis that are far beyond the control of any individual state. For these reasons we would urge cautious examination of any proposal that would turn back the financing of income security programs to the states. We believe that alternative federalism approaches are available – for example, the position adopted at the NGA winter meeting in February – and would be pleased to work with the Congress on such approaches. With your permission, I would like to supply copies of the Association's recent positions on income security and federalism for the record.

Mr. Chairman, the actions of this Committee will play a critical role in the congressional response to the FY 1983 budget. I hope that my comments and the materials that we will supply for the record have been of assistance. I appreciate the opportunity to testify on behalf of the Governors and would be glad to respond to any questions, now or in the future.

Attachment A

Federal Aid to State and Local Governments

FY 1977-1983



Source: BA and Outlays OMB Special Analysis H.
Source: Constant dollars National Governor's Association

Attachment B
Budget Arguments
April 12, 1982

ADMINISTRATIVE COST CEILING

The Administration proposes to create a Combined Welfare Administration Grant (CWA) to combine and cap federal reimbursement for administrative costs for the AFDC, Medicaid and Food Stamp programs. Federal reimbursement in FY 1983 would be limited to 95 percent of the FY 1982 claims. This CWA would replace the current open-ended reimbursement system and, according to OMB estimates, save the federal government $307 million in FY 1983.

In its budget presentation, the Administration argues that this reduction and cap is justified by the following factors:

- states will have the flexibility to design more efficient administrative mechanisms;
- states currently spend unequal amounts on administration with little relationship to an individual state's ability to control high error rates; and
- from other appropriations the federal government will continue to match at 75 percent open-ended expenditures for controlling fraud and abuse.

Contrary to the arguments put forward by the Administration, the CWA does not provide any additional opportunity or authority for restructuring state administration to make it more efficient. In fact, other changes enacted and proposed have substantially increased the administrative complexity of these programs and have reduced state flexibility even further. While it is true that some small savings can be made through the elimination of federally mandated cost allocation and reporting systems, these savings will be minimal. In addition, some system will have to be retained at the state level to hold local and state administrators accountable for their responsibilities.

Second, the CWA does nothing to eliminate current differences in the level of federal reimbursement to be received by the individual states. In fact, to the extent that states are believed to be spending at inappropriate levels, the CWA discourages additional investment in states that underspend and provides an unearned reward to states that do not need their current level of expenditure. More to the point, there is no data presented by the federal government showing where administrative costs in any state are excessive to the needs of that state. The lack of such data suggests that the federal government is unable to suggest cost-effective economies on a state-by-state basis and that it has chosen to use an across-the-board cut in order to avoid those difficult choices.

Third, there is no information currently available to describe exactly what additional expenditures will be reimbursed at the 75 percent level. While we would welcome this additional reimbursement, we are concerned that the available federal and state funds be invested in preventing fraud and abuse not solely in catching abusers after the fact. Federal reimbursement for activities like computerization and wage matches may be far more cost-efficient than for special fraud units.

States object strongly to this proposal for a number of reasons, including:

- states have already made substantial cuts in the level of staffing for welfare administration and will be unable to make additional cuts without a severe impact on the accuracy of benefit and eligibility decisions;
- changes enacted in the Omnibus Reconciliation Act of 1981, changes such as mandated monthly reporting, consideration of stepparent income and expanded authority for community work experience, all require additional administrative costs and, since many states will have implemented such changes for only part of FY 1982, the proposed cap will deny states the needed funds for full year operation.
- the proposed three percent error tolerance will require the states to substantially increase the investment in administration if they are to minimize the danger of sanctions;
- other changes proposed in the FY 1983 Budget will increase state administrative expenditures, these changes include Medicaid co-payment, expanded mandatory job search, mandatory community work experience for AFDC-U recipients and the consideration of income and needs of unrelated individuals sharing a home with a welfare recipient;
- the proposed elimination of funding for WIN and proposed reductions in social service funding will require the states to spend administrative dollars on employment related activities to assure that recipients continue to move toward financial independence;
- existing Medicaid Management contracts will require increased reimbursement to contractors providing services to the states; and
- funding for the operation of computerized information system now under development will not be made available.

While the states are prepared to continue to make every effort to control the growth in administrative costs, a federal cap in the face of additional federal requirements is merely an attempt to shift costs from the federal government to the states. Such a step will seriously hamper the states' ability to continue to meet critical service and income support needs.

Chairman FORD. Thank you very much, Governor Hunt, for your very fruitful testimony. Let me ask you, Governor, you mentioned in your printed testimony on the last page that alternative approaches to Federalism were adopted at the winter meeting of the National Governors' Conference in February. You indicated that you would submit for the record copies of the alternative. Do you have that information with you today to submit for the record.

Governor HUNT. Yes, sir. I have that, Mr. Chairman.

[The information referred to follows:]

National Governors' Association

Richard A. Snelling
Governor of Vermont
Chairman

Stephen B. Farber
Executive Director

NGA FEDERALISM POLICY

The time is at hand for national debate and action on the roles and responsibilities of federal, state* and local government. The president, in his State of the Union message, set out a bold and specific proposal to realign the federal system to achieve more effective and accountable government at all levels.

The governors have, with an increasing sense of urgency, placed federalism reform at the top of their national agenda. We share the president's strong dedication to the concept of federalism. We therefore believe it critical to present to Congress in the immediate future a proposal based on our common goals, and to continue to discuss areas of disagreement.

Our policy statements set forth many federalism principles and guidelines that are compatible with the president's proposals. We are in full accord with the president's proposal for a federal assumption of medicaid. We also welcome his far reaching suggestion that a range of categorical programs be transferred to state responsibility. And we believe, as does the president, that a mechanism for financial transition is essential.

The president's federalism proposals contain some elements that are not consistent with existing policy positions of the National Governors' Association, such as assigning responsibilities for food stamps and AFDC to the states. The governors also believe that support for state and local governments should not be cut in the 1983 budget to the extent that state governments are weakened and left without the capacity to meet the new service delivery requirements of the president's plan for 1984 and beyond.

The governors believe that these differences can either be reconciled by negotiation or temporarily set aside as we build a program based on existing areas of mutual agreement. The governors believe that our areas of agreement with the president's proposal form the basis of a revolutionary restructuring of our federal system. The proposals which follow are intended to identify areas of consensus and to suggest a federalism initiative premised upon those existing areas of agreement. The governors stand ready to enter into immediate discussions with the administration concerning these areas of agreement and the subjects left open in our proposal. Our goal is to keep the federalism issue before the American people and to work with the president and the Congress at every opportunity to restore balance to our system of government. To this end, we make the following proposal:

*The term state, as used in all NGA policy positions, also refers to the territories of American Samoa, Guam, and the Virgin Islands and the Commonwealths of Puerto Rico and the Northern Mariana Islands.

1. The federal government assumes full responsibility for medicaid. Depending on the specific features of a federalized medicaid program, the states could save $19 billion in fiscal year 1984. The exact savings to the states depend upon the fiscal year 1983 appropriations levels and the services actually assumed by the federal government.

2. The AFDC-food stamp portion of the original proposal is deferred for further negotiations. The states will continue discussions on the details of a later proposal for AFDC and food stamps.

3. The states take over some negotiated set of federal categorical programs (excluding transportation programs). The cost will depend upon the actual dollar amount of the programs assumed by the states as set by fiscal year 1983 appropriations. Using fiscal year 1982 cost estimates the states could assume approximately $31 billion in program turnbacks, beginning in fiscal year 1984. Decisions on programs returned to the states will be made in a spirit of partnership and cooperation with local governments.

4. During the first year states would be required to fund all programs at the previous year's level. Over the next three years, states could redirect each year one-third of the total funds for assumed programs to any purpose. By fiscal year 1987, the states would have full discretion over the use of the funds.

5. The transportation programs and the highway trust fund would be dealt with separately.

6. The cost to the states of the returned programs is in excess of the federal government's estimated cost to assume medicaid programs. A trust fund would be created at the level of the swap difference (currently estimated at $12 billion). The trust fund would not increase in size, and would be funded from any federal revenue sources.

7. During fiscal year 1984 distribution of the trust fund would be based on historical expenditure levels to hold states harmless. In fiscal year 1985, 20 percent of the fund could be distributed according to the fiscal capacity of the states; in fiscal year 1986, 40 percent; in fiscal year 1987, 60 percent; in fiscal year 1988, 80 percent; and in fiscal year 1989, 100 percent could be distributed based upon fiscal capacity.

8. In fiscal year 1989, the president and Congress would re-evaluate the total amount required for the trust fund, and determine the most efficient manner to allow the states to retain the appropriate revenue base for returned services.

National Governors' Association
Approved February, 1982

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INCOME SECURITY

THE NATIONAL GOVERNORS' ASSOCIATION STRONGLY SUPPORTS THE PRINCIPLE THAT THE FEDERAL GOVERNMENT SHOULD ACCEPT THE PRIMARY RESPONSIBILITY FOR FINANCING INCOME SECURITY PROGRAMS FOR THE POOR AND OPPOSES ANY FURTHER CUTS IN THE LEVEL OF FEDERAL SUPPORT FOR SUCH PROGRAMS. SUCH PROGRAMS SHOULD, AT A MINIMUM, PROVIDE FOR SOME BASIC LEVEL OF FOOD, SHELTER, TRANSPORTATION, CLOTHING AND HEALTH CARE FOR ALL PERSONS BELOW AN ESTABLISHED MINIMUM INCOME LEVEL. THIS MINIMUM INCOME LEVEL SHOULD BE RELATED TO THE COST OF MEETING SOME NATIONAL MEASURE OF NEED.

THE ASSOCIATION REAFFIRMS ITS BELIEF THAT THOSE PERSONS ABLE TO SUPPORT THEMSELVES AND THEIR FAMILIES SHOULD BE EXPECTED TO DO SO. IT SUPPORTS STRONG WORK REQUIREMENTS AND ACCEPTS THE RESPONSIBILITY OF THE STATES TO COMPLEMENT THE FEDERAL INCOME SECURITY PROGRAMS WITH EFFECTIVE STATE PROGRAMS FOR TRAINING, JOB DEVELOPMENT AND JOB PLACEMENT. AT THE SAME TIME, THE ASSOCIATION RECOGNIZES THAT THERE ARE MANY POOR PERSONS WHO ARE UNABLE TO WORK DUE TO AGE OR DISABILITY, WHO ARE REQUIRED IN THE HOME TO CARE FOR YOUNG CHILDREN OR FOR AGED OR DISABLED RELATIVES, OR WHO ARE UNABLE TO FIND JOBS. FOR SUCH PERSONS, THERE MUST BE AN INCOME SECURITY PROGRAM TO MEET BASIC NEEDS.

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THE ASSOCIATION IS CONCERNED THAT THE CURRENT UNCOORDINATED SERIES OF FEDERAL, STATE AND LOCAL INCOME SECURITY PROGRAMS IS UNABLE TO MEET THESE NEEDS IN AN EFFICIENT AND HUMANE MANNER. IN AT LEAST SOME AREAS OF THE COUNTRY AND FOR AT LEAST SOME RECIPIENTS, BENEFIT LEVELS ARE NOT ADEQUATE TO MEET EVEN THE MOST MINIMAL REQUIREMENTS. IN OTHER AREAS AND FOR OTHER RECIPIENTS, FEDERAL BENEFITS MAY BE COMBINED IN SUCH A WAY AS TO EXCEED THE INTENDED NATIONAL LEVEL. BOTH THE FAILURE TO MEET BASIC NEED AND THE FAILURE TO TARGET BENEFITS TO THOSE MOST IN NEED ARE UNACCEPTABLE. THE CURRENT PROGRAMS MUST BE REVISED TO ASSURE BOTH ADEQUATE BENEFITS AND EQUITABLE TREATMENT IN A MORE EFFICIENT ADMINISTRATIVE SETTING.

THE ASSOCIATION IS ALSO CONCERNED THAT THE CURRENT COLLECTION OF INCOME SECURITY PROGRAMS FAILS TO FOCUS PRIMARY FINANCIAL RESPONSIBILITY AT ANY SINGLE LEVEL OF GOVERNMENT. THIS CONTRIBUTES TO THE UNCOORDINATED NATURE OF THE PROGRAMS AND LEADS TO SUBSTANTIAL DISPARITIES IN BENEFITS AND SERVICES. IT ALSO MAKES IT DIFFICULT TO CONTROL THE RAPID ESCALATION OF HEALTH COSTS AND THE INCREASING RELIANCE ON LONGER TERM INSTITUTIONAL CARE. THE LACK OF A SINGLE NATIONAL PROGRAM IS RESPONSIBLE, IN PART, FOR THE FACT THAT THE CURRENT SYSTEM PROVIDES INCENTIVES TO BOTH RECIPIENTS AND PROVIDERS THAT ARE OFTEN INCONSISTENT WITH THE GOALS OF TARGETING BENEFITS, ENCOURAGING SELF SUPPORT AND PROMOTING THE MOST EFFICIENT DELIVERY OF SERVICE. IT IS ALSO RESPONSIBLE FOR ARTIFICIAL INCENTIVES TO MIGRATION.

EQUALLY IMPORTANT, THE LACK OF A NATIONAL POLICY IS IMPOSING SEVERE HANDICAPS ON THOSE STATES AND LOCALITIES WHICH HAVE A LARGE CONCENTRATION OF POOR PEOPLE OR ARE EXPERIENCING ECONOMIC PROBLEMS. TO THE EXTENT THAT THE STATES TRY TO RESPOND TO THIS RESPONSIBILITY THEY THREATEN THEIR ECONOMIC BASE FOR POTENTIAL RECOVERY. THIS PROBLEM IS PARTICULARLY FRUSTRATING SINCE STATES ARE UNABLE TO CONTROL THE MAJOR FACTORS THAT INFLUENCE EMPLOYMENT OR THE HEALTH OF THE ECONOMY. INCREASINGLY, THESE DECISIONS ARE THE SOLE PROVINCE OF THE FEDERAL GOVERNMENT.

FOR THESE REASONS, THE ASSOCIATION BELIEVES THAT THERE IS A NEED FOR BOTH A LARGER FEDERAL ROLE IN THE FINANCING OF THESE PROGRAMS AND A CLEAR NATIONAL POLICY ON INCOME SECURITY, FOR BOTH CASH ASSISTANCE AND MEDICAL CARE.

THE ASSOCIATION RECOGNIZES THAT THE CRAFTING OF SUCH A POLICY AND THE IMPLEMENTING PROGRAMS IS A DIFFICULT AND COMPLEX TASK. IT ALSO RECONGIZES THAT SUCH A TASK MUST INVOLVE MANY PARTICIPANTS BOTH WITHIN THE GOVERNMENT AND FROM BUSINESS AND THE PUBLIC. AS A RESULT, WE DO NOT SUGGEST A SINGLE PROGRAM TO MEET OUR CONCERNS. INSTEAD, WE SUGGEST SOME BASIC GOALS THAT WE BELIEVE SHOULD GOVERN THE DEVELOPMENT OF SUCH A PROGRAM AND SOME CONCEPTS THAT WE BELIEVE SHOULD BE INCLUDED IN ANY FINAL PROGRAM PROPOSAL.

FIRST, THE ASSOCIATION BELIEVES THAT INCOME SECURITY REFORM MUST TAKE PLACE ON A NATIONAL LEVEL AND PRODUCE A NATIONAL POLICY CONCERNING INCOME SECURITY PROGRAMS.

SECOND, THE ASSOCIATION BELIEVES THAT SUCH A NATIONAL PROGRAM MUST BE COMPREHENSIVE AND MUST ADDRESS THE TOTAL RANGE OF INCOME SECURITY NEEDS IN BOTH THE STATES, THE COMMONWEALTHS OF PUERTO RICO AND THE NORTHERN MARIANA ISLANDS AND TERRITORIES THROUGH CASH ASSISTANCE AND OTHER IN KIND BENEFITS AS WELL AS MEDICAL CARE.

THIRD, SUCH A COMPREHENSIVE NATIONAL PROGRAM SHOULD PROVIDE:

- ELIGIBILITY BASED SOLELY ON NEED
- ADEQUATE BENEFIT AND SERVICE LEVELS
- EQUITABLE TREATMENT ACROSS STATE LINES
- ADMINISTRATIVE SIMPLICITY AND PROGRAM COORDINATION
- GREATER EMPHASIS ON PREPARING AND ASSISTING IMPOVERISHED ADULTS TO MOVE TOWARD SELF-SUFFICIENCY
- INCENTIVES FOR SELF-SUPPORT AND FOR THE MOST EFFICIENT DELIVERY OF SERVICE
- FULL FEDERAL FINANCIAL RESPONSIBILITY FOR A BASIC SET OF BENEFITS

IN ORDER TO ACCOMPLISH THESE GOALS, WE WOULD SUGGEST A NUMBER OF SPECIFIC GUIDELINES FOR PROGRAM DEVELOPMENT. THESE GUIDELINES WOULD INCLUDE:

- SAVINGS IN INCOME SECURITY PROGRAMS RESULTING FROM PROGRAM CONSOLIDATION, IMPROVED TARGETING OR OTHER ADMINISTRATIVE OR ELIGIBILITY CHANGES SHOULD BE REINVESTED IN THE UPGRADING OF BENEFITS TO THOSE MOST IN NEED.

- STATE MATCHING AND THE EXTENSION OF STATE FUNDED SERVICES SHOULD BE VOLUNTARY.

- ASSISTANCE SHOULD BE AVAILABLE UNDER A UNIFIED PROGRAM TO ALL ELIGIBLE PEOPLE BELOW AN ESTABLISHED MINIMUM INCOME LEVEL.

- A NATIONAL MINIMUM BENEFIT, BASED ON THE COST OF MEETING SOME NATIONAL MEASURE OF NEED, SHOULD BE ESTABLISHED.

- ALL RECIPIENTS BETWEEN THE AGES OF SEVENTEEN AND SIXTY WHO ARE NOT DISABLED, ARE NOT IN SECONDARY SCHOOL, OR DO NOT HAVE PRESCHOOL CHILDREN OR OLDER DEPENDENTS REQUIRING FULL-TIME CARE SHOULD BE REQUIRED TO REGISTER FOR WORK AT THE TIME OF APPLICATION.

- ALL REGISTERED RECIPIENTS SHOULD BE REQUIRED AS A CONDITION OF ASSISTANCE TO COOPERATE FULLY WITH EMPLOYMENT PROGRAMS AND TO ACCEPT EMPLOYMENT WITHIN REASONABLE COMMUTING DISTANCE AT THE APPLICABLE FEDERAL OR STATE MINIMUM WAGE.

- STATES SHOULD BE AUTHORIZED TO ESTABLISH WORK EXPERIENCE AND TRAINING PROGRAMS THAT WOULD, ON A TEMPORARY BASIS, CONVERT AUTHORIZED MAINTENANCE PAYMENTS INTO WAGES.

- FEDERAL TAX INCENTIVES DESIGNED TO EXPAND EMPLOYMENT OPPORTUNITIES FOR THE POOR SHOULD BE CONTINUED AND INCREASED.

- DISINCENTIVES FOR WORK SHOULD BE ELIMINATED, AND CHRONIC DEPENDENCY SHOULD BE DISCOURAGED WHILE SELF-SUFFICIENCY IS STIMULATED.

- *There must be adequate day care and other support services which help people to obtain and hold jobs, so there is not a disincentive to work.*

- A NATIONAL INCOME SECURITY PROGRAM SHOULD BE DEVELOPED IN THE CONTEXT OF THOUGHTFUL REFORM OF ALL OTHER SOCIAL INSURANCE PROGRAMS (UNEMPLOYMENT INSURANCE, WORKERS' COMPENSATION, SOCIAL SECURITY). SUCH AN APPROACH SHOULD SUBSTANTIALLY REMOVE INEQUITIES AND ENCOURAGE THE PROPER DEVELOPMENT OF A MORE BASIC INSURANCE SYSTEM.

THE ASSOCIATION RECOGNIZES THAT CHANGES OF THIS MAGNITUDE MAY NOT BE ACCOMPLISHED OVERNIGHT. THE ASSOCIATION ALSO RECOGNIZES THAT THESE GOALS AND OBJECTIVES CAN BE ACHIEVED IN NUMEROUS WAYS. IT IS PREPARED TO DISCUSS SUCH WAYS AND PARTICIPATE ACTIVELY IN THE DEVELOPMENT OF WORKABLE ALTERNATIVES.

Chairman FORD. Could you tell us briefly the position of the National Governors' Conference on the New Federalism that has been talked about in the last couple of months?

Governor HUNT. Let me tell you what our historic position has been. This is a matter that is being discussed with the White House now, with the administration, as you know, and I do not want to say anything that would in any way jeopardize those discussions.

But traditionally the Governors have felt strongly and almost unanimously that the income security programs—that is, AFDC, food stamps, and medicaid—ought to be a Federal responsibility. The need for these programs, for this assistance, rises and falls with the economy.

We are completely prepared to pick up an equal amount in cost, other programs, and we have suggested education, transportation, law enforcement, and a whole range of other programs. We want to swap. We want to make it clear who is responsible for what, to cut out some of the overlapping and duplication and confusion.

Chairman FORD. What about AFDC, Governor?

Governor HUNT. We have traditionally said that AFDC ought to be a Federal responsibility. Again, this, along with other programs, are being discussed now. I do not rule out that there might be some slight modification. But AFDC is one of those income maintenance programs, along with food stamps, along with medicaid, that we have traditionally said ought to be a Federal responsibility.

Chairman FORD. You say in all three. I know administration officials and the President have talked about shifting food stamps and AFDC to the States, and in return, the Federal Government would pick up responsibility for medicaid. I guess my final question is, What is the position of the Governors' Conference on those proposed swaps?

Governor HUNT. The Governors' position is that the Federal Government ought to be responsible for all three of those. That is the concept.

Chairman FORD. But there are areas where the Governors might in fact work out something with the Government?

Governor HUNT. Absolutely. Things we deal with we have more control over, for example, than does the Federal Government. These are things that do not fluctuate, in the main, with the economy. There are things that States very easily could take the total responsibility for, if we had some funds freed up. Transportation we could very easily take over. We have said law enforcement, education, and a whole range of other things.

We are not asking the Federal Government to put any more money in. We are willing to do our share and have an even swap, but we simply think there are things that the Federal Government could best do.

Chairman FORD. Thank you very much. Mr. Bafalis.

Mr. BAFALIS. Thank you very much, Mr. Chairman.

Governor, I appreciate your being here this morning. I have several questions. In reviewing your testimony it appears to me that you have some concern with the block grant programs as it relates to child welfare and energy emergency services.

Do you think it would be advantageous or disadvantageous if there were no reduction in the spending levels if these two pro-

grams were made block grant programs and were administered by the States?

Governor HUNT. With regard to the energy assistance, this is something we have to look at hard. I frankly do not object to that.

Mr. BAFALIS. As long as there is no reduction in the spending.

Governor HUNT. That is right. We object to the $600 million reduction in spending, but I think that that could easily be blocked and that would make sense.

Now with regard to the child welfare programs, while I can see reason for doing some blocking here, we feel there is an awful lot of working out to be done.

The competition for these funds at the local and State levels is fierce right now. I do not know whether or not when you went home for your spring recess you found what is going on with regard to competition for funds but let me tell you there is a tremendous contest right now and we are all feeling it. That is all right. That is the way the system works.

We are concerned with what it did traditionally to entitlements in some of these areas. The feeling is if you have x number of children in foster care who need adoption services, you ought to provide for those children. They are the ones who are the most in peril, so to speak, and we would be very reluctant to see a situation in which those funds might be cut. Again, if we knew we were going to have enough money, we might feel differently.

Mr. BAFALIS. That is my question. If the block grant is made available to you without a reduction in present spending levels or funding levels and we are able to maintain that block grant in the future, taking inflation and real dollars into account, does it make more sense for the States to administer those programs without the strings coming from the Federal Government?

There is one other thing that you said that I take issue with as we talk about New Federalism and shifting medicaid to the Federal Government while at the same time shifting particularly AFDC and food stamps back to the States.

Some of those programs are affected by the economy, but I cannot help but think back to when food stamps were enacted into law in 1966 at a cost of some $35 million and covering some 500,000 people. Since that period of time the cost of food stamps has grown to $12 billion covering some 22 million people and I do not think that is totally related to the economy or recessions and the peaks and valleys. It has been a matter, in my judgment, of the Federal Government not being able to administer a program as well as you could as Governor of North Carolina and the Governors of the other 49 States, who have a much clearer picture of what is happening in their individual States.

I think there is concern on the part of many of us that there are programs like the food stamp program that have absolutely grown out of control at the Federal level. They need to have much greater supervision and many of us feel it can be done at the State level.

Governor HUNT. Congressman, if I could respond, let me say it is my understanding that food stamp programs have been administered locally.

Mr. BAFALIS. The guidelines have been established at this level, unfortunately.

Governor HUNT. That is right, and we think those guidelines have been a real problem. The question is, Who is going to fund what? If the Federal Government decided, of course, to put the responsibility to farm that out to some group, whatever that may be, that could be done. There is no question there has been some waste in food stamps. I agree with that and it ought to be cut out.

Mr. BAFALIS. It just seems to me, Governor, that as Governor of a State you are in a much better position to administer that program and to cut out the fraud and the waste than we are at the Federal level. I think that is what was behind a lot of this New Federalism and I would think that you would welcome that kind of control at the local level.

Governor HUNT. We are basically talking about the funding of programs, I think, when we are talking about the new federalism. It does go to the question of administration too. There is no question about that. But we are talking about budgeting. We are talking about what the Federal Government is going to pay for; what are we going to pay for through our Federal Government and what are we going to pay for through our State and local governments.

And we are simply saying that those are a set of programs that we think are most appropriately funded at the Federal level. There is a whole matter, too, of people going back and forth between States looking for improved benefits. We have seen that a lot throughout history. The nonincome security programs people at the State level understand the need of and are more apt to be responsive to and deal with effectively.

It is not a completely clearcut matter. We simply think that in terms of how do you sort it to have the Federal Government do the income security programs. Let the States take a set of programs equal in money, closer to folks at the county and the local level. If they feel close to it then they are apt to respond. It just makes sense.

Mr. BAFALIS. Thank you, sir. My time has expired, Mr. Chairman.

Chairman FORD. Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman. Governor, we certainly have a lot of respect for you individually, the organization you represent and the State from which you come. We, too, would have liked the luxury of waiting on further block grants until the verdict is in on the ones that have been enacted so far.

You point out that in the projected block grant programs there is a reduction in funding of the total categorical grants we put into a block grant. We were told last year when we did that that a very high percentage—it ran last year, I think, around 18-percent reduction in funding of those programs that were block-granted—we were told about 15 percent of that would be saved by getting rid of the Federal bureaucracies that used up that money and that the 2 or 3 percent or whatever net reduction you would get would be made up by the increased flexibility of handling the program and wiser use of funds and, therefore, getting better benefit for the dollars you could receive.

Are you prepared to tell us that the block grants we enacted last year have not worked out that way?

Governor HUNT. I think we have had some savings. I think the way you phrased that question is the best argument I can think of for not making any further reductions. If we are going to be able to save 15 percent—and we never said we could save that much; we talked about the figure 10—and 2 percent above that certainly is within our margin of safety—what you did last year was about on course. We could live with it and we are living with it. It is tough, but we are doing that. It is tough all over.

We are living with that. We are simply asking you please, do not cut us again this year. Times are hard and these are people. We are talking about food, clothing, shelter, and these basic services. That is why we are saying you have made the right kind of cut, approximately.

Mr. MOORE. I appreciate your comments. I wish we had the luxury to sit back and wait, but as you pointed out in your comments, the current deficits the Federal Government is looking at for this year and next year and 2 or 3 years beyond evidently are not going to give us the luxury of waiting. We may well have to proceed with additional reductions if we block-grant these programs, hoping that you will be able to make more efficient use of the funds you get than in the past. You actually wind up without that much reduction in services to the individual.

Governor, you made a comment, and I think it is one that all of us in Congress are certainly very cognizant of, about the difficulties that we are causing State Governments. The problem we have, though, is the fact that many of us have seen that as the Federal programs grew, the tax burdens at the State level increased. So it seemed we were replacing State tax burdens with Federal tax dollars, and now that we are reversing that, the States are beginning to raise taxes and are, as you say, finding themselves in difficult circumstances.

But really I think those difficulties are perhaps caused by the false sense of economy we at the Federal Government gave. For instance, as you point out in your chart, we had an all-time high in constant dollars in 1978 of billions of dollars going from the Federal Government to the States which continued through 1979 before it began to go down in 1980 and 1981.

According to the Christian Science Monitor chart that I am looking at here that they prepared in December 1981, in 1978 and 1979 the precise high points in constant dollars going to the Federal Government also saw the high points in reductions of State taxes and we look at 1981 and only three, four States of the Union ran deficits and many, many States ran pretty healthy surpluses.

The question becomes who ought to be paying for these programs. Many of these programs were usurped or taken on by the Federal Government in times of the Great Society or earlier and now we have got to determine who can better pay for them. And if the game is going to be we collect the taxes, give them to you and you reduce State taxes, it seems to me an inefficient way of handling it. We ought to get out of the picture and let you raise the taxes and run the program.

Governor HUNT. Well, Congressman, that situation from 1979 has been greatly reversed, as you know. As a matter of fact, in 1981 over half of our States raised taxes and that is continuing, I

think, this year. I have not seen figures on what has been happening in the legislatures throughout the country in 1982, but from just following things I know that is continuing to be the case.

We are dealing here with some very crucial things and what I would want to emphasize to you—and I speak partly as a Governor who spends more time than anything else working on economic development and growth, trying to make my State attractive for industry, both to come in, to expand, to provide new jobs, to do all of the things that you have to do—and I know that is a concern of yours.

Mr. MOORE. You have been very successful at it, I might add, too, Governor. We are envious of that record in North Carolina.

Governor HUNT. Thank you, sir, but I want to say to you that these are basic investments that make so much sense, especially in children. I work every week. I will be leaving here, flying straight back to Raleigh and going directly to a public high school in the city of Raleigh, working with a young man who is just on the verge of dropping out of school.

I have worked with a number of young people, some 30 or 40, at that school this year. I can tell you that without these funds many of those children would be in much greater peril than they are. They certainly would be dropping out of school.

I saw a program last Sunday night on national television about one of the most vicious murderers in this country, as I view things, who began life being shunted back and forth from one foster family to another, abused frequently, and that individual wound up in the prisons. He is what I call a permanent prisoner. He ought to be that or worse, in my view. And the public, the taxpayer, is putting money into keeping that individual in prison along with all the hurt and pain.

That is why I feel that these programs, Congressman, are so vitally important. I know that some cuts had to be made and you made them last year. I am simply saying to you now you can get down to a point where it is really counterproductive, where if you do not provide just the basics, kids will not stay in school. They will turn to crime. We will be paying for them in mental institutions and in other ways, and I would urge you all to look at that very seriously.

Mr. MOORE. Governor, I appreciate your comments. Nobody on this committee is going to disagree with the responsibility of government to try to help its citizens. The question we are facing is who can best afford it. We are bankrupt at the Federal level. We cannot. The States are in a better situation. If you look at the tax increases, the one in 1981—and we do not have the figures for 1982 yet—they are less in real dollars, much less constant dollars, the decreases of prior years of 1978 and 1979.

I think we have come to the conclusion that the States have a responsibility, always have. They started the welfare programs. We got into it rather late and we are simply saying we will give you the help we can, but the States are going to have to assume the difference and that is going to be something that nobody likes to tell a Governor. I do not like to tell my Governor that. He is a close personal friend of mine and he is feeling the same crunch you are, but it just so happens that most of the States appear to be in better shape to raise the funds to continue these programs than we are,

and I think that is the question we are getting into. It is not whether the program is valid or not, but how we are going to pay for it.

Thank you, Governor.

Chairman FORD. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Governor, I read over your testimony and you have alluded the budget cuts passed last year. In my State of California, many of the supervisors and State officials are saying they do not know the full administrative effect of last year's cuts because they are still working on implementation problems and trying to feather it out and come up with some solutions to it.

Second, they do not know what the full effect of last year's cuts will be on the recipients of the benefits.

Could you elaborate whether or not you have been able to solve those two problems: (1) the administrative problems as a result of the cuts, and (2) whether we know what the full effect has been on your State's recipients of the cuts last year?

Governor HUNT. Congressman Matsui, we have not worked that out, and part of what we are saying to you here today is, I doubt if any State in the country has fully worked that out. We are in the process of doing it. At the same time, we are facing these real tough economic times. And I know what California is looking at, facing a billion-plus deficit right now, and other States are in equally tough positions.

We are still trying to work that out. So we are arguing and asking you not only to not make further cuts this year, just give us level funding for a while. That is going to cost us because of inflation. We are asking you to give us level funding and then we are urging that you give us the time to adjust to that. We are still in the process.

I think what is happening right now is that legislatures are dealing with it. The first process I think most States have gone through is that we have gone out in various ways to the various recipient groups, the providers, local governments, all of the interested citizens, and told them what is involved in block grants and about the cuts, so they will understand. Basically, the people of this Nation have to understand what is going on. This is their government. Sometimes we forget that, but it is.

And we have gone through that or we are still in that process. Then we are in the budgeting process and trying to figure out who is going to get what of these funds, where the cuts are going to come, what kind of priorities are we going to shift out.

We ought to at least go through one budget year in which we can see what we are going to do this first time and let us have one level, 1 year, and then make a judgment after we have had 1 year in terms of how we have dealt with it and what the needs are.

Mr. MATSUI. Are you suggesting that if we allow another 8 to 12 months to go by with a freeze on all further program changes, then you will be in a position to evaluate the situation and perhaps come back to us at that time and advise us of whether further cuts are possible?

Governor HUNT. We would be in a far better position. I want to say to you today and I want to make it very clear—we too often

misunderstand things in this business. I am not saying to you that we are going to come to you a year from now and say, hey, we can take additional cuts in X, Y and Z.

We may. We may very well, for example, have figured out some ways we can do things more efficiently. And we very frankly may be able to shed some light on it with you on whether we ask for cuts in terms of the way people have adjusted, where private groups have come forward. I can see the churches in my area now are really coming alive in terms of new and more things that they ought to be doing.

But we have got to see what kind of response we are going to get, see where the slack is being picked up, I think, before we make further deep cuts.

Mr. MATSUI. Thank you, Governor. I would also like to personally thank you as a member of the Democratic Party for bringing me back into the party through your recent actions. Thank you.

Governor HUNT. Thank you, Congressman.

Chairman FORD. Governor, just one or two comments here. I think you mentioned earlier the foster care and child welfare services program. I think the child welfare service is $160 million and the foster care fund is about $350 million.

You talked about the States needing more flexibility. I just wanted to call to your attention that, you know, the States gained that flexibility in the use of the Federal foster care funds under the new foster care ceiling. In other words, the States have the option in certain instances where child welfare protection procedures and services have been implemented to reprogram from foster care funds to be used for child welfare services. And a State can take its share of $350 million and transfer it over.

Governor HUNT. Congressman, we deeply appreciate that. That is the kind of progress we are making. Sometimes I am afraid you all think, because we point out problems, that we are not aware or grateful for the good things you are doing.

That is a specific example of some real progress we are making that helps us a great deal, helps those children.

Chairman FORD. Well, Governor, one final question. We had the administration up here before the subcommittee a few weeks ago and the clear implication of their testimony was that the changes in the AFDC earnings disregards enacted last year have affected only those families with children that have adequate income to meet their needs.

I'd like to know from you, Governor, do you agree with this assessment.

Governor HUNT. Congressman, I am really not in a position to give a very definitive response to that. I have not looked at a study of that, for example. But if you do not mind——

Chairman FORD. Governor, when you get back to your State I would appreciate it if your commissioner on human services would in fact submit that information to this committee. We would like to know, because the administration has indicated to us that it is only affecting those families who can meet their needs.

Governor HUNT. Congressman, we will do that. We will get that back to you as quickly as we can.

I would just want to add this, however. I come here speaking on behalf of these programs funded at adequate levels. By the same token, I think we have got to have standards, I think we have got to have rules and regulations, I think we have got to cut out waste and fraud and abuse. And I feel that just as strongly as I feel the need to help people who need help.

While I think there ought to be a period of time in which you can, you know, have a little additional income and adjust to that, I think there ought to be some limits on that. I think this committee ought to require that in a reasonable kind of way.

We will specifically get you this kind of information. But I think you have moved in a good direction there and I would just urge that you be careful not to just go too far in that direction and make it so that people would be reluctant to make that jump. That is kind of a leap that takes some faith and also needs some fiscal encouragement to do.

Chairman FORD. Well, Governor, thank you very much. When you are submitting that information to the subcommittee, I would appreciate it if you would also have your people to look at the legislation that I have introduced in the Congress addressing the issue of the disregards, and also comment on that in submitting your information to the committee, if you do not mind, sir.

I would like to get the information maybe from your State. I am really requesting it from every State. I am really requesting it from North Carolina, and if you would like to insert any other States from the Governors' Conference I would be hapy to have that information.

Governor HUNT. We would be delighted to do that, and I appreciate the opportunity.

Chairman FORD. Governor, once again thank you for your appearance today.

Mr. MATSUI. Mr. Chairman, would the Chairman yield?

Chairman FORD. Mr. Matsui.

Mr. MATSUI. Governor, one of the problems I have seen with the allegation of fraud, waste, and abuse is that it is a term that has been overused somewhat, not by you perhaps but by some people in this administration. Moreover, many of my constituents keep telling me when I am in my district that you have to eliminate fraud, waste, and abuse as this is how to best reduce the $185 billion baseline deficit. My response is that we have a President who promised to do that, so I am assuming that that is going to be done.

But let me ask you a question, because the only way the Congress can deal with those kind of issues is by reviewing certain standards. Let us take the aid to families with dependent children program. The administration has proposed to lower the error rate for States to 3 percent this coming fiscal year and eventually down to zero.

My State does not like that idea and I imagine your State would not like it either, because the implementation of the AFDC program will have an error rate.

Now, my question to you is, are such errors fraud, waste, and abuse? Do you want us to get down to zero in 1985 and should we go down to 3 percent in 1983?

Governor HUNT. Congressman, let me respond in a general kind of way, and again I think we call on commonsense. We ought to really keep the pressure on to get it down as low as we can. I do not know what that figure is. I do not think we have any private businesses that get it to zero. They have a lot more flexibility in working with people than we do, with all the laws we have protecting employees and that kind of thing.

So I would certainly leave it to this committee, and I would not suggest exactly what those figures ought to be. I would simply say to you, give us time. We are making great progress. The figures show that. Work with us as long as we are doing those things that we ought to be doing.

For example, in North Carolina we are putting on computer the kinds of information that we need to have about eligibility of people for different kinds of programs. Once we put that on for one program, we have got it available for the whole range of programs, and instead of having to go back in with a different set of people, do interviews, take the information down and so on, we are going to have it right there.

We are going to be able to cut it substantially once we get that kind of program on line. But looking at the state of the art, what kinds of things are reasonable, I think you ought to make a reasonable judgment about what is sort of an irreducible minimum in terms of what kind of error rate there is going to be.

The errors, incidentally, sometimes are against the recipient. For a period of time—we have reduced that now—we had a food stamp error rate in our State that was about 15 percent. What they did not report was that 9 percent of that was overpayment and 6 percent was underpayment, and our 9 percent overpayment was below the national average.

Mr. MATSUI. Well, Governor, I agree with you and I think we have to use commonsense in this area. My only concern and the reason I brought the question—is my belief that we sometimes use the words "fraud, waste, and abuse" which are subject misinterpretations, and we in effect play into the hands of those people that would like to be irresponsible by imposing standards that we cannot be expected to reach.

So I do not want such terms to be overused, because eventually we have to deal with our constituents in responding to that.

Thank you, sir.

I yield back, Mr. Chairman.

Chairman FORD. Thank you, Mr. Matsui.

Governor, I want to thank you very much for your appearance before the committee.

Governor HUNT. Thank you, Mr. Chairman.

Chairman FORD. The committee will call on the Honorable James A. "Jim" Mack, president pro tem of the Arizona State Senate. Mr. Mack, we thank you for appearing before the committee today and we look forward to your testimony. You may submit any testimony that you have in writing and it will be made part of the record and you may summarize your statement to any extent that you would like to.

At this time the Chair recognizes Mr. Mack.

STATEMENT OF STATE SENATOR JAMES A. MACK, PRESIDENT PRO TEM, ARIZONA SENATE

Mr. MACK. Thank you. Chairman Ford, distinguished members of the committee, it is indeed a pleasure to be here. I bring you greetings from the State of Arizona and would like to address the work-sharing program that we have instituted in Arizona.

Since the 1974–75 recession, which caused massive layoffs, economists, labor leaders, and business leaders have argued that for combatting the impact of economic downturns, the combination of work-sharing and unemployment compensation is a much more equitable and efficient procedure than the combination of layoffs and unemployment compensation.

In the 1981 legislative session we passed Senate bill 1005 which amended the employment security law to allow for a 2-year trial shared work unemployment compensation program extending from January 1, 1982 to December 31, 1983. I was the prime sponsor of this legislation. Therefore, I am very grateful to have this opportunity to come before this committee and relate to your body our experience with the program thus far and to give you a bit of background.

For those of you who may not be familiar with it, shared work compensation, which is a form of work-sharing, is a procedure for dividing the available work, or hours of work, among all eligible employees during temporary and unavoidable cutbacks in production or services. It involves partial unemployment compensation benefits and it is implemented as an alternative to selectively laying off a portion of the employees. It is a voluntary program for companies and unions and is not intended as a substitute for other public and private policies for dealing with economic downturns.

Work sharing has a long history in the United States and abroad. Recent American experience includes many examples of work-sharing. By mid-1974, 1 out of every 5 major collective bargaining agreements, covering 2.1 million workers, included clauses calling for a reduction of hours during slack work periods, and 119 of the 311 contracts, covering 800,000 workers, contained specific clauses dealing with the sharing of work. The apparel industry has perhaps the longest history of work-sharing in the United States. The industry is characterized by many small firms which experience major fluctuations in demand even during boom periods. To mitigate these unstable employment patterns, work-sharing clauses appear in many of the garment union industry agreements. During the 1974–75 recession, work-sharing was used as a means to avoid layoffs at such diverse firms as New York Telephone Co., Michigan Trucking Co., the Chamber of Commerce in Frederick County, Md., the Washington Star newspaper right here in Washington, Hewlett-Packard, and Pan American Airways. Unemployment compensation was not involved in any of these work-sharing efforts.

The incidence of shared work compensation has been much greater in Europe. During the mid-1970's, shared work rose significantly as a means of combating the recession. In general, the European practice was to compensate workers either directly or through the firm for a percentage of wages lost because of reduced hours under work-sharing. The West German system is typical of most

European programs. The system begins with having local employment service offices persuade firms to resort to short-time working in preference to total layoffs. The West German Government then compensates workers for 68 percent of wages due to lost and reduced hours. France, Italy, Luxembourg, the Netherlands, the United Kingdom, and Austria instituted similar programs.

The only State to introduce shared work compensation besides Arizona is California, which instituted a trial program in 1978 that is still in operation. In 1977 Canada started a number of pilot work-sharing projects.

The concept of shared work compensation in Arizona was formulated in the 1980 legislative session. The department of economic security was given an appropriation by the legislature to study the feasibility of such a program in the State. A survey was then undertaken by the Department. The survey consisted of a questionnaire which was designed to determine attitudes toward the extent to which shared work compensation programs should be voluntary on the part of the employer, the duration of such programs and the extent to which fringe benefits must be maintained if shared work compensation is to be desirable for employees. Employers were also asked specific questions about the savings to the companies which would likely result from work-sharing and how those savings compare to the cost of fringe benefits. The questionnaire was followed up with a subsample in-person survey designed to validate the mail survey and determine attitudes toward more specific aspects of work-sharing.

The highlights of the survey are as follows: 67 percent of union representatives favored temporarily changing the unemployment insurance law to allow shared work unemployment compensation to be tried in Arizona. Only 52 percent of employer representatives favored temporarily changing the unemployment insurance law to allow shared work unemployment compensation to be tried in Arizona. But 81 percent of employees favored temporarily changing the unemployment insurance law to allow the shared work unemployment program to be tried in Arizona.

As a result of this survey and major lobbying efforts by Arizona's employer community, the Arizona Association of Industries, the Arizona State Chamber of Commerce and myself, Senate bill 1005 was passed.

An employer who wishes to participate in the work sharing program contacts the department to obtain an application. This is submitted for approval and the department has 15 days to notify the employer of its approval. To be approved, the plan must involve at least two employees.

The law is specific as to what is required of the employer. The employer must certify that, for the duration of the shared work plan, the reduction of the employee's hours is in lieu of a layoff which would have resulted in a reduction of at least an equal number of hours of work.

The employer must also certify that each employee participating in the shared work plan has earned at least $725 from that employer in the previous 6 months prior to the establishment of the work sharing plan. Any changes in fringe benefits must be identified. Also, if there is a collective bargaining agent for any employee in-

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volved in the plan, the agent must provide written approval of the plan. These requirements are all part of the application submitted to the department of economic security.

An employee participating in the plan may draw up to 26 weeks of shared work compensation. The employee is eligible in any week under an approved plan that his/her work hours are reduced at least 10 percent, but no more than 40 percent. The employee does not have to be available for other work, does not have to look for work and is not subject to the refusal of work disqualification unless he or she refuses a full-time job with the shared work employer.

Shared work benefits are charged against an employer's experience rating account in the same manner as regular benefits, including former employers that fall within the claimant's base period, which is the first four of the last five completed quarters immediately preceding the filing of a claim. The law provides a surtax for negative balance employers when the 1983 tax rates are determined. Employers become negative when the benefits paid out to former employees exceed the taxes paid in.

Since January 1, 1982, when the program was initiated, 75 Arizona companies have had plans approved for the shared work program. As of April 16, 1982, 17,098 employees are participating in a program through their employer.

At the present time in Arizona the copper industry is being hard hit by economic conditions caused by the lower price of foreign copper and the depressed housing industry. However, two major copper industries have recently submitted their plans to the Department of Economic Security for approval. There are presently two copper producers who have recently initiated the work share programs within their organizations, having recognized the value of the program as a viable alternative to large scale layoffs.

The success of Arizona's program in this short period of time reflects the need for this type of legislation throughout the country. We would urge the adoption of work share programs to help ease the strain of current economic conditions on America's work force.

Mr. Chairman, that concludes my prepared remarks. I would like to mention a number of things that I think would be of interest to you and your committee. You will hear later on in the day from Arizona's largest employer, Motorola Co., as to how the law works in Arizona as far as they are concerned, and I believe they will also address the attitude of morale and more or less uplift, compared to the recessions that they have faced at Motorola in the past.

I think that some of the things we have looked at over the last few months and in the last year that Arizona has been addressing this problem have been very heartening. In San Jose, Calif., the work share program was put into effect quite extensively in the electronics industry, and some of the people there feel that it really put their electronics industry into a position that when the time did come that they had work to do here, just in the past year, their force was all there and ready to go. Had it not been there, the gross product of those companies would have been really meaningfully hurt.

In France they have been using the program for some 10 years. A number of people have said in these conferences and so on that

at times there is a possibility that France's gross product has been as much as 11 percent enhanced under this program.

And in Germany, where the program is really supported strongly from the Federal Government, they in all of the work-sharing program meetings that we have had, these people have been there, through the Marshall program, just primarily to show the interest that they have in this country and the feeling that this type of program is really what we need to look at more indepth than we have in the past.

I believe the support of Representative Schroeder's measure could develop a good concept at the Federal level for this type of program, and hopefully you would develop model legislation that we could most certainly look at. I do have copies of the bills that we originally drafted in this area, and I am sure that Mr. Matsui can obtain the ones from Senator Green in California that they developed.

But this is really a very meaningful area that needs to be addressed, and I think could probably help this country in these coming years, especially in the near future, as much as anything else when we are addressing the unemployment problem that we are going to be facing.

I would be more than happy to visit with you about anything that you would like to talk about on these programs.

[Attachments to the prepared statement follow:]

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
Unemployment Insurance Administration

EMPLOYER NEWSLETTER

September 1981

WORKSHARING - AN ALTERNATIVE TO LAYOFFS

In our July 1981 newsletter we informed you the Arizona Legislature had enacted legislation providing a two year trial period beginning January 1, 1982, for a Shared Work Unemployment Compensation Program.

Under the program, employers are given a new alternative with respect to how their unemployment insurance dollars are spent. Historically, employees had to be completely laid off before they could receive unemployment insurance benefits. Under the new Shared Work Unemployment Compensation Program, employees may receive reduced unemployment insurance benefits while they are still working for the employer.

This program provides certain benefits. The employer does not lose trained employees due to layoff, and consequently does not incur the added expense of training new employees when business picks up and he increases his work force. The employees whose normal weekly hours of work are reduced may receive shared work unemployment benefits proportionate to the reduction in their normal weekly hours of work. The community does not experience an increase in the number of unemployed individuals and the resulting economic impact.

An employer may participate in the program by submitting an application for a shared work plan to the Department for approval. Certain conditions must be met for the application to be approved. At least two employees must be included in the plan and all must be identified. The plan will continue if one or more employees are dropped as long as at least two employees remain in the plan. A new plan must be submitted if the employer wishes to add one or more employees. An employer may have two or more plans in effect at the same time. Each plan must specify an expiration date which is no more than one year from the date the plan is submitted.

The employer must certify that for the duration of the shared work plan the reduction in hours is in place of a layoff which would have resulted in a reduction of at least an equal number of hours of work. He must also certify that each employee identified under the plan had at least $725 in compensation payable to him in the six month period immediately preceding the date the plan was submitted. The plan must specify what changes, if any, in fringe benefits the affected employees will experience, and written approval of the plan must be obtained from the collective bargaining representative for any employee under the plan covered by a collective bargaining agreement.

An employee included in an approved plan shall be considered unemployed for purposes of determining eligibility under the plan. He may be eligible for up to 26 weeks of shared work benefits during the approved period of the plan. The employee shall be eligible for shared work benefits for each week in which:

1. His normal weekly hours of work are reduced at least 10% but no more than 40%,

2. The total of his shared work benefits and regular unemployment benefits has not exceeded the maximum benefits payable in a benefit year; and,

3. He meets the requirements for eligibility for regular benefits except that he need not:

   (a) Be available for other work,

   (b) Conduct an active search for work, or

   (c) Apply for or accept work other than from the shared work employer.

An employee included in an approved plan shall not receive shared work benefits for any week for which he receives regular benefits. Any employee included in more than one shared work plan will be eligible for shared work benefits only under the most recently approved plan.

Shared work benefits paid to claimants under a shared work plan will be charged against reimbursing and experience rated base period employers in the same manner as regular unemployment benefits are charged. An employer who has had a shared work plan in effect and whose employees were paid shared work benefits in the 12 month period prior to the July 1 rate computation date may be subject to a surtax. If he has a negative reserve, a surtax will be added to his computed rate. A shared work employer whose employees were not paid shared work benefits in the 12 month period prior to the computation date may also be subject to a surtax. The surtax will be imposed if he has a negative reserve and his reserve ratio shows no improvement over the reserve ratio computed for each year in the most recent continuous period in which a surtax was added.

The present legislation will permit a surtax to be added under the above conditions only to a shared work employer's rate for 1983. If Arizona employers find the program a desirable alternative to layoffs, the legislature may extend the program indefinitely. We encourage employers to participate in the program during the trial period so that its merits may be adequately examined. Additional information regarding the program, and applications for submitting a shared work plan may be obtained by telephoning our Employer Experience Rating Unit at 255-4757 or writing to the

following address:

Arizona Department of Economic Security
Contribution Section
Attn: Nancy Shadley
P.O. Box 6028
Phoenix, AZ 85005

U.S. SUPREME COURT TAX DECISIONS

The U.S. Supreme Court recently ruled in favor of employers in two unemployment insurance tax cases. Numerous inquiries from employers have prompted us to issue a newsletter, though not all employers are affected by these decisions.

On May 26, 1981, in **St. Martin Evangelical Lutheran Church et al v South Dakota**, the U.S. Supreme Court decided, with one justice filing a concurring opinion, that church-related schools having no separate legal existence *(not separately incorporated)* from a church or convention or association of churches, came within the definition of "church." As such, the Court concluded the services performed for such schools were exempt from coverage required by the Federal Unemployment Tax Act *(FUTA)*.

The U.S. Department of Labor had informed the states the FUTA required coverage of services performed for church-related primary and secondary schools under the state laws. The Secretary of Labor took the position the exemption provided for services performed for churches did not extend to services performed for the church-related schools. The Secretary's determination was appealed on constitutional as well as statutory grounds.

In its decision, the Supreme Court recognized the right of state courts to construe the state's own law differently, but the Court added that the state courts deserve to be made aware of the proper, and here, significant interpretation of the intertwined Federal law. The Supreme Court's decision was based solely on the intent of the U.S. Congress when the Federal statute was amended in 1970. Having resolved the matter on statutory grounds, the Court did not consider it necessary to address the constitutional issues that had been raised.

The Supreme Court recognized the difference between the statutory exemption for services performed for a "church," which includes the schools that have no legal entity separate from the church, and the exemption for separately incorporated schools or organizations operated, supervised, controlled or principally supported by a church or convention or association of churches that are operated primarily for religious purposes; however, the Court left for the future any issue of coverage for these separately incorporated schools or organizations.

The Department of Economic Security is acknowledging the position taken by the U.S. Supreme Court that church-related schools, not separately incorporated, fall within the definition of "church," and services performed for such schools are not covered for unemployment insurance purposes.

On June 8, 1981, in **Rowan Companies, Inc. v United States**, the U.S. Supreme Court, in a six to three decision, held in a case involving employees working on off-shore oil rigs, that the value of meals and lodging provided by the employer for the convenience of the employer were not wages, for purposes of the FUTA and the Federal Insurance Contributions Act *(FICA)*. The Supreme Court concluded "the convenience of the employer" rule which has been applied in determining whether the value of meals and lodging constitutes wages for income tax purposes also applies to the definition of wages under the FUTA and the FICA. The Court held it was the intent of the U.S. Congress that wages mean the same thing in each of the three tax situations, to promote simplicity and ease of administration.

A regulation has been submitted for adoption which will permit the Department to determine when the value of meals and lodging provided employees by the employer for the convenience of the employer will not constitute wages for unemployment insurance purposes. When adopted, this regulation should eliminate a different wage reporting requirement by employers for Federal and State unemployment purposes.

SHARED WORK

INFORMATION FOR EMPLOYEES

This folder gives general information about the Shared Work Unemployment Compensation Program and supplements the pamphlet, What You Should Know About Unemployment Insurance in Arizona (PA-007).

General Information

Shared Work is a new type of unemployment insurance program, which is effective January 1, 1982 in Arizona. This program allows employees to "share the work" available from their employer, rather than have some employees laid off while others continue to work full time. Employees who "share the work" under an approved Shared Work Plan can collect partial unemployment insurance benefits.

Eligibility Requirements

Before you can be eligible for Shared Work benefits, your employer must submit a Shared Work Plan to the Department of Economic Security (DES) for approval. This Shared Work Plan must:

1. name you as a person who may participate in the Shared Work Program,
2. include the employer's certification that you had at least $725 in compensation payable from the employer in the six months before the plan was submitted, and
3. indicate the employer plans to "share the work" rather than lay off employees.

If your employer's plan is approved and you want to collect Shared Work benefits:

1. You must have or be able to establish an Arizona unemployment insurance claim.
2. You must serve, or have served, a waiting week. A waiting week is the first claimed week in which you meet requirements after establishing a claim. Benefits are not payable for that week.

3. Your normal weekly work hours must be reduced by at least 10% but not more than 40% for each week you claim.
4. You may be required to show proof of earnings to requalify if you previously established a claim and were disqualified. If you have a disqualification with a definite ending date, you will not be eligible until that date has passed.

Claim Certification

Every other week DES mails a list of the Shared Work Plan employees to your employer. Your employer makes this list available for you to certify to the following information pertaining to the two most recently completed calendar weeks:

1. the hours your employer would compensate you for, and
2. whether or not you refused a job offer of full-time work with your employer.

Your employer also certifies to the information on the list and returns it to DES. If you are eligible for Shared Work benefits, a check is mailed to you. If you are not eligible, you are notified by mail.

Exemptions from Regular Unemployment Insurance Policy

If you are participating in a Shared Work Plan:

1. you are not required to look for work and are not penalized for refusing job offers from other employers. If you refuse suitable full-time work from your Shared Work employer, you may be disqualified from receiving benefits.

2. work with another employer does not affect your Shared Work benefits.

Computation of Benefits

If you have an existing Arizona unemployment insurance claim, your weekly benefit amount and total award will not change for the remainder of your benefit year.

If you are establishing a claim when you file for Shared Work, you will receive a wage statement in the mail. The wage statement shows your employers and wages earned during the period used to establish a claim. The wage statement will also show your weekly benefit amount and total award. An explanation of how these are computed is on the wage statement.

Unemployment insurance benefits are reduced in proportion to the hours your employer reduces your normal work week. For example, if you normally work a 40-hour week and your employer reduces your work by 8 hours a week, you would be eligible to collect 20% of your weekly benefit amount. If your weekly benefit amount is $95, your Shared Work benefit would be $19.

Restrictions

You cannot collect Shared Work benefits for a week in which your weekly work hours are reduced less than 10% or more than 40%. For example, if you normally work a 40-hour week and your employer reduces your hours by more than 16 hours, you would not be eligible for Shared Work benefits for that week.

You may be eligible to collect up to 26 weeks of Shared Work benefits, but the total of the Shared Work and regular unemployment insurance benefits you receive cannot exceed your total award.

For Further Infcrmation

If you have questions about your Shared Work claim, your employer may be able to answer them. If your employer can't answer your questions, call your local unemployment insurance office.

Chairman FORD. Mr. Mack, let me thank you very much for your testimony. H.R. 5904, the bill introduced by Congresswoman Pat Schroeder on the issue of work-sharing is legislation I have discussed with her. And we appreciate——

Mr. MACK. Excuse me. That is Representative Schroeder from Colorado?

Chairman FORD. That is correct.

Mr. MACK. Excuse me. I called her Mr. Schroeder. Excuse me, Mr. Chairman.

Chairman FORD. We have discussed the legislation and I would like to thank you for your input on this matter.

Mr. MACK. You are certainly welcome.

Chairman FORD. Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

I just have a couple of questions. First of all, I would also like to thank Senator Mack for his testimony today and for the fact that he, along with others in his State, has shown a considerable amount of leadership in putting together such a package.

One of the issues I would like to pursue with you Senator—you will probably have to give me the data later in writing—is that you know under most union contracts minorities and women are the most recent hirees, and of course if there are any layoffs they are the first to go under most contracts. I am wondering if there is data that would give us the ethnic and racial and sex breakdown of those people that are participating in your State program? Do you happen to have this data available? And if so, could you provide that to us?

Mr. MACK. I am not sure if we have that data available. But I am glad you brought that up, because this was a very important area in our original determinations as to how we were going to handle this. As you are aware, as you said, last hired, first fired, is a concept that most organized labor adheres to. Therefore, when you go into a shared work program the unions were rather afraid. You know, they wanted to protect their older members, and justifiably so.

This was integral in our looking at these programs in Arizona and in our studies. I do have copies of our complete surveys that we made. The unions in the beginning were not for this program. You saw—you heard the results, and so on.

[The following was subsequently received:]

JAMES A. MACK
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PRESIDENT PRO TEMPORE

COMMITTEES
COMMERCE & LABOR, CHAIRMAN
NATURAL RESOURCES, VICE CHAIRMAN
JUDICIARY
TRANSPORTATION

Arizona State Senate

Phoenix, Arizona

May 5, 1982

MEMORANDUM

TO: John J. Salmon
Chief Counsel
Committee on Ways and Means
U.S. House of Representatives

FROM: James A. Mack, President Pro Tem
Chairman, Committee on Commerce and Labor
Arizona State Senate
State Capitol
Phoenix, Arizona 85007

SUBJECT: Testimony before the Subcommittee on Public Assistance and Unemployment Compensation, April 21, 1982

Follow-up information requested by Representative Matsui (see page 54, lines 1318-1322)

In answer to Representative Matsui's question regarding the ethnic, racial and sex breakdown of people participating in the share-work program in the State of Arizona; I have attached hereto the latest update of information supplied by the Arizona State Department of Economic Security for the week ending April 23, 1982.

Additionally, I would add that Motorola which is the largest employer in Arizona reports that of those plants which are participating in the program, 22½% are minority employees and approximately 65-70% are female employees.

I trust this information will be adequate in response to Congressman Matsui's question. Should any further information be desired, please feel free to contact my office.

May I say in closing, I very much appreciated the opportunity to appear before your Committee in this important matter.

Sincerely,

James A. Mack

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encs.

MANAGEMENT INFORMATION
SHARED-WORK REPORT
Week Ending 4-23-82

		CURRENT WEEK	CUMULATIVE (from 1-1-82)
1.	a. Number of firms with Shared-Work plans approved for first time.	5	82
	b. Number of Shared-Work Plan applications approved	13	279
	c. Number of firms whose employees received Shared-Work benefits.	INA	INA
2.	a. Number of employees in approved Shared-Work plans.*	309	17,411
	b. Total number of Shared-Work claimants paid benefits.	501	3,567[1/]
3.	a. Number of Shared-Work weeks compensated.	3,181	15,451
	b. Total amount of Shared-Work benefits paid.	$66,448	$326,416
	c. Average Shared-Work weekly benefit amount.	$21	$21
4.	a. Number of Shared-Work monetary determinations.	194	8,939[2/]
	b. Number Shared-Work nonmonetary determinations.	17	302
	c. Number Shared-Work initial claims.	204	10,023
	d. Number Shared-Work continued claims.	4,441	21,745
	e. Number of lower level Shared-Work appeals disposed.	INA	INA[3/]
	f. Number of higher level Shared-Work appeals disposed.	INA	INA[3/]
5.	Shared-Work beneficiary characteristics:		
	a. Sex	204	9,863
	(1) Male	106	3,937
	(2) Female	98	5,926
	b. Age	204	9,863
	(1) under 20	3	54
	(2) 20-24	24	1,509
	(3) 25-44	94	5,167
	(4) 45+	83	3,133
	c. Ethnic Groups	204	9,863
	(1) White	152	7,171
	(2) Other than white	52	2,692

*The employer does not have to reduce the hours of all employees listed on a plan. However, no employee can draw shared-work benefits unless listed on a plan.

1/ Figures reflect "1st pay" totals.

2/ Figures reflect "new" initial count.

3/ Data available at end of month, only.

Mr. MACK. In the end, they were one of our big supporters. They came forward, and when you saw the number of employees that wanted to participate, they desired more to stay with their company and develop their roots, rather than be put out and looking for a job—it really became more of a proponent position than an actual detractor, as they began to look at it and visit with their union membership and so on.

And as you are aware, in the electronics industry women are a basic factor in it. They are hired extensively. There are many areas where you have departments that are 100 percent women. And I do not know whether the statistics are available. I will check with DES when I get back. But this area that you are addressing here is a very, very important area, and on first blush organized labor does not like it. But once they begin to look at it and talk to their people and go to the hearings and it proceeds along in the normal sequence of events, at least in Arizona they became very, very strong supporters of the program.

Mr. MATSUI. Thank you very much, Senator.

Mr. MACK. You are very welcome.

Chairman FORD. Again, thank you very much, Senator Mack. And we once again on behalf of the committee want to thank you for taking your time to appear before the committee.

Mr. MACK. Thank you. It has been a pleasure to be here. And we look forward to some type of legislation coming down to the States.

Chairman FORD. Well, immediately after the public hearings are over, hopefully the full committee will give us some time maybe to consider some markup sessions for the legislation.

Thank you very much.

Mr. MACK. Thank you, sir.

[The following was subsequently received:]

ARIZONA STATE SENATE.

Attached are specimen forms used in Arizona to process applications.

J. MACK.

SHARED WORK COMPENSATION
(A FORM OF WORK SHARING)

SUMMARY 1981

WHAT IT IS

Shared Work Compensation, a form of Work Sharing, is a procedure for dividing the available work, or hours of work, among all eligible employees during temporary and unavoidable cutbacks in production or services. It involves partial unemployment compensation benefits and it is implemented as an alternative to selectively laying off a portion of the employees. It is a voluntary program for companies and unions and is not intended as a substitute for other public and private policies for dealing with economic downturns.

HOW IT WORKS

Let's take an example: A firm facing a 20 percent reduction in production usually lays off one-fifth of its workforce. Faced with this situation, a company could employ its total workforce on a four-day week basis. This reduction from 40 to 32 hours cuts production by the required 20 percent without reducing the number of employees. All employees would receive their wages based on four days of work plus a partial unemployment insurance payment equal to 20 percent of the UI benefits payable to them had they been unemployed a full week.

WHEN AND WHERE IT HAS BEEN EMPLOYED

Shared Work Compensation which began in 1920 rose significantly in Europe as a means of combating the mid-1970's recession. In general, the European practice was to compensate workers either directly or through the firm for a percentage of wages lost because of reduced hours under Work Sharing.

During 1975, a monthly average of 773,000 workers (538,000 men and 235,000 women in 12,500 firms received unemployment compensation supplements from the West German government. It was estimated that without Shared Work Compensation, the 1975 unemployment average would have been 175,000 higher (a 17 percent increase).

France, Italy, Luxembourg, the United Kingdom, the Netherlands, and Austria instituted similar programs and achieved similar results.

Canada is currently testing Shared Work Compensation through pilot projects in both unionized and nonunionized establishments. On the basis of evaluations and further experience, the government will decide whether to introduce Shared Work Compensation as a continuing program in Canada.

CALIFORNIA'S PROGRAM

In 1978, California established a temporary Shared Work Compensation Program by authorizing payments of Unemployment Insurance benefits for up to 20 weeks to employees participating in this Program.

In order for a California employer's Shared Work Compensation plan to be approved, there must be (1) a reduction of the total hours worked among at least 10 percent of the employer's regular permanent workforce, and (2) a reduction of at least 10 percent in the employees' wages resulting from such work reductions. Moreover, an individual employee must experience a one-week noncompensable waiting period before becoming eligible for benefits.

EXAMINATION OF COLLECTIVE BARGAINING AGREEMENTS

A recent study by the Bureau of Labor Statistics examined 1,845 collective bargaining agreements in the United States, each covering 1,000 workers or more (1,021 agreements involving 4.2 million workers in manufacturing and 824 agreements involving 3.4 million workers in nonmanufacturing). The study found that just under 25 percent of the agreements, covering 36 percent of the workers, provided for some form of Work Sharing.

Along with the reduction of hours during slack work-periods, most agreements provided for the initial layoff of probationary, non-senior workers, transfers to available vacancies and attrition to forestall or minimize Work Sharing; and also placed restrictions on overtime, subcontracting, and new hires (except for replacement) for the duration of the Work Sharing period.

WHY IS IT DESIRABLE

Shared Work Compensation remains an exception to the rule in the United States; labor, management, and society have apparently decided its disadvantages outweigh its advantages. The severity of the 1974-75 recession, the effect of the recession on affirmative action plans, and the length of time it took to recover from the recession convinced many persons that the social benefits of this form of Work Sharing warrant government participation on a scale sufficient to make the advantages of this concept to employers and employees outweigh its disadvantages.

ADVANTAGES AND DISADVANTAGES OF SHARED WORK COMPENSATION

EFFECTS ON INDIVIDUALS

Advantages	Disadvantages
Employment skills and advancement opportunities are maintained.	Senior employees suffer a reduction in hours and income that would not otherwise have occurred.
Most recently hired workers suffer less financially and socially.	Employees may suffer a reduction in fringe benefits which are prorated.
All employees incur fewer work-related expenses including fuel conservation.	

EFFECTS ON INDIVIDUALS (cont'd.)

Advantages	Disadvantages
All employees have more time for leisure or other work activities.	
Significantly reduces amount of fringe benefit loss (primarily Life and Health Insurance and pension rights) associated with unemployment.	

EFFECTS ON EMPLOYERS

Advantages	Disadvantages
Maintenance of existing productivity and quality levels since same employees are doing the same jobs and morale does not deteriorate.	Increased overhead costs if fringe benefits are not reduced in proportion to hours.
The capability to expand rapidly when the economy recovers since a fully trained workforce has been retained.	Increased risk of losing valuable employees whose skills and performance enable them to locate full employment elsewhere.
Reduction in training and retraining costs since workforce remains intact and workers don't have to be assigned to jobs different than those previously held.	Work scheduling may be more difficult
Reduction in administrative costs since continual rescheduling, transfers, and downgrading associated with layoffs and "bumping" are avoided.	

EFFECTS ON SOCIETY

Advantages	Disadvantages
More equitable distribution of the severe impact of a recession (on the entire labor force, rather than a few workers).	Decreases mobility and hence may result in a misallocation of resources and decreased output.
Protects affirmative action gains that might otherwise be lost due to the large numbers of youth, women, and other minority members who were hired last and would be fired first on a seniority system.	
Preservation of jobs and incomes would lessen the need for public assistance expenditures.	

EFFECTS ON SOCIETY (cont'd.)

Advantages	Disadvantages
Smaller gyrations in consumer spending patterns could lead to milder recessions and more rapid economic recovery as persons on reduced hours make a smaller retrenchment in consumer spending than unemployed persons.	
Spreads the timing, if not the incidence, of unemployment, thereby resulting in a more orderly transition for industries undergoing structural change.	

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
Unemployment Insurance
P.O. Box 6028 - Phoenix, Arizona 85005

PRINT or TYPE in black ink **SHARED WORK PLAN APPLICATION**

1. EMPLOYER *(Company)* NAME | 2. U.I. EMPLOYER ACCOUNT NO.

3. PLAN START DATE: On what date *(must be a Sunday date)* do you want this plan to become effective?* _____
4. PLAN END DATE: On what date *(must be a Saturday date)* do you want this plan to end?* _____
5. Number of employees to be covered by the plan as listed on attachment to this application.* _____
6. The main Arizona work location of employees listed on this plan is: _____ *City/Town* _____ *County*
7. Indicate the sequence by which employees should be listed on the bi-weekly certification you will receive: By ☐ Social Security Number ☐ Last Name
8. If work hours of employees listed on this application are reduced to less than their normal weekly work hours, will their fringe benefits be affected?

☐ No ☐ Yes If yes, how? *(Please be specific)* _____

9. List each collective bargaining representative(s) for any employee(s) covered by this plan:

	UNION NAME	LOCAL #	UNION OFFICIAL	TITLE
A.				
B.				
C.				

I APPROVE OF THIS SHARED WORK PLAN:

SIGNATURE, OFFICIAL A | DATE | SIGNATURE, OFFICIAL B | DATE | SIGNATURE, OFFICIAL C | DATE

EMPLOYER CERTIFICATION

10. We certify to the following:
   A. Each employee listed on this plan had at least $725 in wages payable from us during the six month period immediately preceding the date this plan is submitted.
   B. During the effective period of this plan, instead of layoffs there may be a reduction(s) in the total normal weekly work hours for the employees specified on the attached listing(s). If a reduction occurs, the total normal weekly work hours reduced will be at least as many as would have occured with a layoff.
   C. We have read and understand the attached SHARED WORK APPLICATION INSTRUCTION SHEET. We are aware of the potential effects on our Unemployment Insurance account *(experience rated or reimbursable)* if Shared Work benefits are paid to our employees.

EMPLOYER REPRESENTATIVE SIGNATURE | TITLE | DATE SUBMITTED

FOR DEPARTMENT USE ONLY - DO NOT COMPLETE BELOW THIS LINE

11. PLAN DISPOSITION
RECOMMENDATION: I recommend ☐ Approval ☐ Disapproval. Reason(s): _____

CONTRIBUTIONS SECTION REPRESENTATIVE | DATE

12. DETERMINATION: The plan is ☐ Approved ☐ Disapproved for reasons cited in 11.

UNEMPLOYMENT INSURANCE ADMINISTRATOR | DATE

**See explanation on SHARED WORK APPLICATION INSTRUCTION SHEET.*

UB-401 (10-81)

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
Unemployment Insurance
P.O. Box 6028 - Phoenix, Arizona 85005

SHARED WORK PLAN - PARTICIPANT LISTING

Please TYPE or PRINT in black ink

EMPLOYER *(Company)* NAME

U.I. EMPLOYER ACCOUNT NO.

	EMPLOYEE SOCIAL SECURITY NUMBER	NORMAL WEEKLY HOURS OF WORK *(Maximum of 40 Hours)*	OCCUPATIONAL DIVISION CODE *(See reverse for 2 digit code)*	UNION MEMBER? YES	UNION MEMBER? NO
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					
9.					
10.					
11.					
12.					
14.					
15.					
16.					
17.					
18.					
19.					
20.					
21.					
22.					
23.					
24.					
25.					

OCCUPATIONAL DIVISION REFERENCE*

Select the Occupational Division Code which reflects the primary duties/responsibilities of the employee.

PROFESSIONAL, TECHNICAL, AND MANAGERIAL OCCUPATIONS

00/01 Architecture, engineering, and surveying
02 Mathematics and physical sciences
04 Life sciences
05 Social sciences
07 Medicine and health
09 Education
10 Museum, library, and archival sciences
11 Law and jurisprudence
12 Religion and theology
13 Writing
14 Art
15 Entertainment and recreation
16 Administrative specializations
18 Managers and officials, not elsewhere classified
19 Miscellaneous professional, technical, and managerial

CLERICAL AND SALES OCCUPATIONS

20 Stenography, typing, filing, and related
21 Computing and account-recording
22 Production and stock clerks and related
23 Information and message distribution
24 Miscellaneous clerical
25 Sales and services
26 Sales of consumable commodities
27 Sales of commodities, not elsewhere classified
29 Miscellaneous sales

SERVICE OCCUPATIONS

30 Domestic service
31 Food and beverage preparation and service
32 Lodging and related service
33 Barbering, cosmetology, and related services
34 Amusement and recreation service
35 Miscellaneous personal service
36 Apparel and furnishings service
37 Protective service
38 Building and related service

AGRICULTURAL, FISHERY, FORESTRY, AND RELATED OCCUPATIONS

40 Plant farming
41 Animal farming
42 Miscllaneous agricultural and related
44 Fishery and related
45 Forestry
46 Hunting, trapping, and related
50 Processing of metal
51 Ore refining and foundry
52 Processing of food, tobacco, and related products
53 Processing of paper and related materials
54 Processing of petroleum, coal, natural and manufactured gas, and related products
55 Occupations in processing of chemicals, plastics, synthetics, rubber, paint, and related products
56 Processing of wood and wood products
57 Processing of stone, clay, glass, and related products
58 Processing of leather, textiles, and related products
59 Processing occupations not elsewhere classified

MACHINE TRADES OCCUPATIONS

60 Metal machining
61 Metalworking, not elsewhere classified
62/63 Mechanical and machinery repairs
64 Paperworking
65 Printing
66 Wood machining
67 Machining stone, clay, glass, and related materials
68 Textiles
69 Machine trades, not elsewhere classified

BENCHWORK OCCUPATIONS

70 Fabrication, assembly, and repair of metal products, not elsewhere classified
71 Fabrication and repair of scientific, medical, photographic, optical, horological, and related products
72 Assembly and repair of electrical equipment
73 Fabrication and repair of products made from assorted materials
74 Painting, decorating
75 Fabrication and repair of plastics, synthetics, rubber, and related products
76 Fabrication and repair of wood products
77 Fabrication and repair of sand, stone, clay, and glass products
78 Fabrication and repair of textile, leather, and related products
79 Bench work, not elsewhere classified

STRUCTURAL WORK OCCUPATIONS

80 Metal fabricating, not elsewhere classified
81 Welders, cutters
82 Electrical assembling, installing, and repairing
84 Painting, plastering, waterproofing, cementing, and related
85 Excavating, grading, paving
86 Construction, not elsewhere classified
89 Structural work, not elsewhere classified

MISCELLANEOUS OCCUPATIONS

90 Motor freight
91 Transportation, not elsewhere classified
92 Packaging and material handling
93 Extraction of minerals
95 Production and distribution of utilities
96 Amusement, recreation, motion picture, radio and television, not elsewhere classified
97 Graphic art work

**Adapted from the Dictionary of Occupational Titles, Fourth Edition, 1977.*

SHARED WORK APPLICATION INSTRUCTION SHEET
Instructions and Information for Submitting a Shared Work Plan

Before completing the application (Form UB-400) to participate in the Shared Work Program, read this explanatory sheet. On the application you will certify you have read and understand the contents of this sheet. If you have questions, call 255-4757 between 8:30 a.m. and 5:00 p.m., Monday-Friday, before submitting your application.

I. APPLICATION FORM (UB-400)

ITEM

1. Self-explanatory.

2. Write the ARIZONA ACCOUNT NUMBER which appears on the EMPLOYER'S QUARTERLY CONTRIBUTION AND WAGE REPORT (UC-018) which you submit to the Department of Economic Security each quarter.

3. Regardless of the date you specify, if your plan is approved it cannot be effective prior to the Department's approval date. The law states your application must be approved or disapproved within 15 days of the date it is received by the Department of Economic Security. You will be notified within 10 days thereafter of the reason(s) if your plan is denied.

4. If approved, your plan will expire on the date you specify or one year from the DATE SUBMITTED (Item 10 on application), whichever comes first.

5. A Shared Work application must include a list of the employees to be covered by the plan. You may use the attached form (UB-401) for this purpose. The form may be duplicated if more than one sheet is needed. The employees must be identified by Social Security Number. If you wish to generate a computer printed list, insure it is in the same general format as form UB-401.

   IMPORTANT - There must be at least two employees in the affected group. The plan may continue if one or more employees are dropped as long as at least two employees remain in the plan. If you wish to add one or more employees to the affected group, a new Shared Work Plan Application must be submitted for approval.

   You may have two or more plans in effect at the same time. A separate application must be submitted and approved for each plan.

6. Self-explanatory.

7. If your plan becomes effective, you will receive bi-weekly certification lists which will be used to claim benefits. Employees who initiate claims will be listed in ascending Social Security Number order or alphabetically by last name, depending on your preference.

8. Self-explanatory.

9. The law requires that your plan be approved by the collective bargaining representative(s) for any of the employees listed on your plan. If there are more than two (2) collective bargaining representatives, please attach a separate sheet which provides the same type of information in a similar format.

10. A. Self-explanatory.

    B. An example of what the statement means is: instead of laying off 10 employees who normally work 40 hours per week, you could participate in Shared Work by reducing the hours of 100 workers by at least 4 hours each.

    C. Self-explanatory.

11-22. To be completed by DES personnel

II. EFFECTS OF SHARED WORK ON YOUR EXPERIENCE RATED OR REIMBURSABLE ACCOUNT

Shared work benefits paid to claimants under a shared work plan will be charged against reimbursing and experience rated base period employers in the same manner as regular unemployment benefits are charged. An employer who has had a shared work plan in effect and whose employees were paid shared work benefits in the 12 month period prior to the July 1 rate computation date may be subject to a surtax. If he has a negative reserve, a surtax will be added to his computed rate. A shared work employer whose employees were not paid shared work benefits in the 12 month period prior to the computation date may also be subject to a surtax. The surtax will be imposed if he has a negative reserve and his reserve ratio shows no improvement over the reserve ratio computed for each year in the most recent continuous period in which a surtax was added. The present legislation will permit a surtax as shown below to be added under the above conditions only to the 1983 contribution rate of a shared work employer:

Reserve ratio used to determine the contribution rate for the next calendar year	Amount to be added to the rate for the next calendar year
Positive or zero	0.00%
Between zero and minus .05	.25%
Minus .05 or between minus .05 and minus .15	1.00%
Minus .15 or less	3.00%

It will be necessary for the Legislature to extend the plan if the rate of a participating employer is to be subject to a surtax for any year after 1983.

III. ELIGIBILITY REQUIREMENTS FOR SHARED WORK BENEFITS

An employee included in an approved plan shall be considered unemployed for purposes of determining eligibility under the plan. He may be eligible for up to 26 weeks of Shared Work benefits during the approved period of the plan. The employee shall be eligible for Shared Work benefits for each week in which:

1. His normal weekly hours of work are reduced at least 10% but no more than 40%,

2. The total of his Shared Work benefits and regular unemployment benefits has not exceeded the maximum benefits payable in a benefit year, and

3. He meets the requirements for eligibility for regular benefits except that he need not:

   A. Be available for other work,

   B. Conduct an active search for work, or

   C. Apply for or accept work other than from the Shared Work employer.

An employee included in an approved plan shall not receive Shared Work benefits for any week for which he receives regular benefits. An employee included in more than one Shared Work Plan will be eligible for Shared Work benefits only under the most recently approved plan.

(See Attachment for More Detail on Work Sharing)

Chairman FORD. Our first panel is: a representative from Mr. Lloyd McBride, president, United Steelworkers of America; Mr. Bert Siedman, AFL–CIO, director, Department of Social Security; and Mr. Robert McGlotten, associate director of legislation; and representing the United Auto Workers, Mr. Sheldon Friedman, director of research.

May I have the name of the representative of Mr. McBride?

Mr. POWDERLY. Yes, Mr. Chairman. My name is John Powderly. I am with the legislative department.

Chairman FORD. Your last name?

Mr. POWDERLY. P-o-w-d-e-r-l-y.

Chairman FORD. Mr. McGlotten?

Mr. SEIDMAN. Mr. McGlotten is not here, but I am Bert Seidman, representing the AFL–CIO.

Chairman FORD. We will hear from each of you in the order that I called the names. I recognize at this time Mr. Powderly representing the United Steelworkers.

STATEMENT OF JOHN POWDERLY, LEGISLATIVE DEPARTMENT, UNITED STEELWORKERS OF AMERICA, PRESENTING STATEMENT OF LLOYD McBRIDE, PRESIDENT

Mr. POWDERLY. Thank you, Mr. Chairman.

President McBride regrets that he cannot be here today, but asked me to read his testimony.

Unemployment compensation was one of the series of New Deal acts that brought this country foursquare with the realities of the industrial age, one of which was that, for whatever cause or causes, the economy moved through cyclical fluctuations of prosperity and decline, through fat years and lean years. It made eminent good sense in 1935 for the Federal Government to establish a national commitment toward the establishment of an unemployment insurance and compensation system.

Unemployment compensation serves a dual purpose: first, at the individual human level, it provides workers with at least an income necessary to survive during their layoff period; and second, at the macroeconomic level, it is a counter cyclical device to avoid a deepening of the recessionary level.

The primary concerns of our unions are jobs and work. We have underutilized plant capacity in the steel industry and an unemployment rate that requires us to go back to 1933 for a comparison year. Unemployment in the steel industry is a reflection of all those other industries that are hard hit at this time.

The Reagan administration has cast the die and is depending on a tentative economic theory to create new economic growth. But while the affluent of this country wait with bated breath for their tax bonanza, workers in this country wait in longer and longer lines for their unemployment compensation.

The budget is to be balanced by taking money from those who need it in the short run to survive and is given by those who will profit from it in the long run.

Back in 1970, after several single-shot extensions of unemployment compensation, the Federal Government decided to provide automatic provisions for extended coverage with a national trigger and individual State triggers. The then Assistant Secretary of the Treasury, Murray L. Weidenbaum, had this to say about such automatic devices:

> * * * [They] strengthen the ability of the unemployment system to provide automatic stability during an economic decline. The dual federal-state system to trigger and finance extended benefits is desirable to avoid temporary emergency actions by the states to finance a sudden high-cost period of regular benefits. The states should be able to accumulate adequate reserves to finance increased benefits due to unusually high unemployment.

I might say, Mr. Chairman, the legislation passed the House at that time 381 to 3.

The administration's 1981 budget reconciliation bill eliminated the national trigger and required the States to increase their insured unemployment rates before their extended benefits could trigger on, with a further provision that workers receiving extended benefits are not to be counted as being unemployed in the calibration of the States' triggers.

We are working in a national economy and an extended unemployment program must be one that recognizes the national implications of regional cutbacks in production. Further, when through the reconciliation process it was decided to strip workers of unemployment benefits by eliminating the national trigger, it was at a time when the realities and implications of national unemployment were not as dramatic as today. Only seven States and Puerto Rico remained triggered on after the August 1980 cutoff. There are now 26 States plus Puerto Rico and the Virgin Islands triggered on the extended benefits program.

We support the Eckart bill, H.R. 5284, which reverses the negative reconciliation action on the Federal and State triggers and the restrictive counting methodology. We live in a nation where a decline in auto production in Michigan results in steel layoffs in Pennsylvania and Ohio, rubber in Ohio, electrical components in New Jersey and Wisconsin, and auto rugs and upholstery in Caroli-

na. The decline in steel production further results in layoffs on the iron ore range in Minnesota and the coalfields of West Virginia. High interest rates which result in a decline in new housing starts adversely affect the lumber industry in the Northwest and the brick and clay industry in Georgia. As these laid-off workers forego purchases of home appliances produced in Illinois, workers who make electrical cords for those appliances in Vermont are laid off. As workers exhaust their unemployment benefits, the recession begins to feed upon itself.

Without a national trigger, steelworkers who are laid off at the Bethlehem Steel Works in Lackawanna, N.Y., do not receive extended benefits even though they are as hard hit as Bethlehem steelworkers at Johnstown and Bethlehem, Pa., and Sparrows Point, Md.

In addition to the recapture of the extended benefit triggers contained in the Eckart bill, we urge this subcommittee to adopt an emergency unemployment compensation program to provide up to 26 additional weeks of benefits. A 13-week emergency extension was enacted during the Nixon administration in 1972 and an accumulative 26 weeks was approved during the 1975–76 recession by the Ford administration.

Despite this administration's optimism about the future, we are here to report the grim reality of today. Employment in the steel industry is in its 10 consecutive month of decline, and in only 1 month in the last 24 months has hourly worker employment been higher than the depression year of 1933 when the industry began compiling such data.

Presently we are faced with at least 80,000 steelworkers laid off. Under the pressure of Reaganomics and unfair steel imports, we are also facing permanent shutdowns of steelmaking facilities. In other words, some steelworkers will never again return to the steel mills. Because they live in steel mill towns, their unemployment is expected to be long in duration. We are therefore urging that the extraordinary response contemplated by the chairman's bill, H.R. 6085, begin now rather than later and that it anticipate the longevity of the unemployment rather than await another session of Congress to provide the additional extension. We are therefore requesting that the Ford bill provide benefits for 26 weeks instead of 13 weeks.

If the Congress had not severely restricted the unemployment compensation during its love affair with the reconciliation process, then the pain of unemployment would not be as deeply felt as it is now. Unfortunately, we are before this committee urging that it reestablish the reasonable program which previously prevailed. However, that system was considered as a normal response to expected cyclical downturns. But what we are now experiencing is a downturn which is quite out of the ordinary. In the past we did experience similar unusual economic recessions and Congress moved to help vast numbers of unemployed workers brace themselves against the ensuing poverty.

We are again—because of Reaganomics—facing harsh times. Not only are the numbers of unemployed steelworkers growing, but we have exhausted at many plants the supplemental unemployment compensation funds. Private sector aids in the steel industry de-

signed to handle unusual economic conditions are now being depleted. We must therefore seek from Congress a realization of the deepening situation, despite whatever consequence the funding of additional emergency extensions might have on the deficit. It is not our purpose to suggest what Government programs should be cut. We are in a situation in which we must embrace additional deficits to forestall even greater deficits of human proportions.

Furthermore, the length of such emergency relief is already demonstrated by the fact that the prognosis of a slow recovery—or even continued decline—indicates that fiscal 1983 and 1984 will be affected. Secretary of Treasury Regan has stated that "we are dead in the water." The question is whether unemployed workers will be allowed to sink.

Thank you, Mr. Chairman.

[An attachment to the prepared statement follows:]

Employment of Hourly Employees In The Domestic Steel Industry*

	1980	1981	1982
Jan.	320,310	291,000	252,000
Feb.	319,271	292,536	
March	317,531	294,648	
April	314,826	298,352	
May	297,824	300,012	
June	276,572	297,625	
July	264,897	296,301	
Aug.	263,620	292,703	
Sept.	268,415	286,000	
Oct.	281,000	225,000	
Nov.	285,000	261,000	
Dec.	288,788	250,000	

Average Hourly Employment In the Domestic Steel Industry*

1970	410,797
1978	339,155
1979	341,931
1980	291,483
1981	286,900
1982 (Jan.)	252,000

* American Iron and Steel Institute

Chairman FORD. Mr. Seidman?

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR & CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. SEIDMAN. I am Bert Seidman, director of the Department of Social Security of the AFL-CIO. Mr. Chairman, I have a brief statement which I should like to present and a longer detailed statement which I respectfully request be included in the record of the hearing.

Chairman FORD. Mr. Seidman, it will be made a part of the record and you may summarize your statement.

Mr. SEIDMAN. Thank you, Mr. Chairman.

The AFL-CIO appreciates this opportunity to present our views on the Reagan administration's proposed cuts in the programs designed to prevent poverty and deprivation for those Americans who are battered by conditions beyond their control.

Last year the administration requested and the Congress enacted drastic cutbacks in vital social programs, forcing the needy to sacrifice while the country waited for economic recovery. While the unemployment rate has gone from 7.5 percent in 1981 to 9 percent in March 1982, billions of dollars have been cut from all of the programs designed to help the needy. Without pausing to assess the pain caused by these actions, the administration is back asking for additional cuts which will further erode these basic life support programs.

Today there are more people out of work than at any time since the Great Depression of the 1930's. One million jobs have been wiped out since last July, leaving 9.9 million workers without jobs and another 1.3 million too discouraged to continue looking for work. Add to that the 6 million workers who, unable to find full-time jobs, have been forced to accept part-time work and you have over 17 million workers who are suffering serious and painful job and income loss.

It is estimated that 3 million unemployed workers will have their unemployment compensation benefits cut off or reduced in fiscal year 1983 as a result of recent actions by the Congress. When these people are faced with a total loss of income they will join millions of other destitute Americans seeking ways to keep their families from starving. They will find that, while pursuing policies which have destroyed jobs and put millions of workers on the streets seeking help, the administration has drastically cut employment and training, welfare, medical, educational, social services and food and nutrition programs.

UNEMPLOYMENT COMPENSATION

The protections of the unemployment compensation program, particularly for the long-term unemployed, have been drastically eroded as a result of the ill-considered restrictions initiated by the Reagan administration and imposed by Congress. The extended benefit program is severely restricted by elimination of the national trigger and the exclusion of extended benefit claimants in the calculation of the State triggers. As the result of two additional re-

strictions that will become effective on October 1, 1982, extended benefits will be paid in fewer States due to the mandated increase in the State triggers and 20 weeks of qualifying employment will be required for eligibility.

In recognition of the necessity for additional weeks of benefits for unemployed workers during economic recession, the Congress has several times enacted legislation establishing supplemental benefit programs. The AFL–CIO welcomes the introduction by Chairman Ford of H.R. 6085 which, if enacted, would provide up to 13 weeks of supplemental unemployment compensation benefits to unemployed workers who have exhausted their regular and extended benefits. The maximum duration of benefits, therefore, would be extended to 52 weeks. While we favor a maximum duration of 65 weeks, the bill is a step in the right direction. However, since benefits would be payable under the same trigger used for the existing benefits program, repeal of the punitive cutbacks already enacted is urgently needed. We therefore support H.R. 5284 and H.R. 5252, identical bills which would restore the national trigger, maintain the present State trigger levels and provide for inclusion of extended benefit recipients in the calculation of the insured unemployment rate. Thus, we favor combining H.R. 5284, H.R. 5252, and H.R. 6085. H.R. 5251 would only restore the national trigger and thus does not insure the availability of extended benefits.

To reduce the likelihood of further cutbacks in the unemployment compensation program, we urge Congress to enact legislation that would exclude the unemployment insurance trust funds from the unified budget, since the unemployment insurance system is basically financed and administered by the States.

H.R. 5904 provides for a 3-year experiment to test the concept of short-term compensation. Except for the minimum benefit standard we urge, the bill has incorporated most of the safeguards urged by the AFL–CIO Executive Council in its statement adopted August 5, 1981. We favor a minimum benefit standard of 66⅔ percent of the worker's wage up to 75 percent of the State average wage. We will seek to achieve this standard in the regular program and at the same time by application in short-time compensation. In order to test this concept adequately, all States must be required, rather than encouraged, to incorporate this provision of the bill in their programs. In addition, adequate funding for the studies and evaluations must be provided to the Department of Labor. These studies are essential for determining the efficacy and fairness of this approach.

Under the provisions of the omnibus reconciliation bill of 1981, ex-service members who leave the military voluntarily are no longer eligible for unemployment compensation benefits. Now the administration proposes to restrict this program further by limiting eligibility to service members discharged under honorable conditions because of demobilization, reduction by force, or disability incurred while in the service. We urge Congress to reject this latest proposal and to restore unemployment compensation to service members who do not reenlist.

AID TO FAMILIES WITH DEPENDENT CHILDREN

As a result of last year's cuts in aid to families with dependent children, 750,000 families—2,250,000 individuals—will have their AFDC benefits reduced or completely terminated. This year the administration proposes to eliminate or reduce payments to an additional 921,000 households or approximately 2,763,000 individuals. The effect would be to decrease even more dramatically the financial incentive that once existed for families to work their way off of welfare and leave the millions of children in families which rely solely on AFDC with less income with which to supply the bare necessities of life.

Mr. Chairman, it was most heartening to hear Governor Hunt, speaking on behalf of the Governors, call attention again and again to the impact that these unconscionable cuts in programs like unemployment insurance and AFDC and other programs are having on the children of this Nation. We would emphasize this.

All too often, these programs are discussed as if they deal only with adults, but they are having a tremendous and a terrible impact on the opportunity for a decent life, for making a contribution to this country for millions of children. And we will regret this for a long, long time if we permit this to continue.

Mr. Chairman, instead of encouraging people to remain in the labor market, the Reagan budget for fiscal year 1982 removed practically every incentive for the working poor to continue working by reducing their income more if they worked than if they simply relied on AFDC and other income support. Further disincentives are created by the fiscal year 1983 budget proposals in both AFDC and food stamps, which in many cases will actually penalize work effort.

As public policy, this reversal of incentives toward work is outrageous. The families affected are on the edge between financial self-sufficiency and full economic dependence. The provision of additional income to them through small AFDC supplements or food stamps is of low cost to public funds but of high benefit in preventing greater dependency and increasing economic productivity. By fundamentally altering the incentives and opportunities confronting these families, the administration is reducing the likelihood that they will ever be able to work their way out of poverty or near-poverty sudsistence levels.

After restructuring the AFDC program so that people will find it advantageous to stop working in order to better provide for their families, the administration proposes a number of punitive and illogical remedies for the situation it has created. It would devise a program whereby a mother choosing to work would have less income than if she did not choose to work, but at the same time threaten her with loss of AFDC benefits if she responds to the financial incentive by voluntarily leaving her job. And of course, she not only loses the AFDC payment, but she also uses for herself and her family the medicaid, the medicaid coverage on which the family depends for health care, if she goes off the AFDC rolls.

In addition, the administration seeks to mandate the often punitive and discredited system of workfare—whereby parents will be forced to work at make-work jobs for no wages, with no training

and no hope of advancement. Under the optional program provided under last year's AFDC changes, all but five States rejected the workfare option, with the vast majority choosing to continue the existing work incentive program or a similar alternative program.

In spite of this overwhelming preference expressed by the States, the WIN program is to be completely eliminated by workfare taking its place. We strongly oppose this unwise and punitive change.

With respect to social services, they were an early victim to the retreat by Government from its fundamental responsibilities last year with the brutal reduction of funding and elimination of responsibility for providing life-sustaining services to the aged, blind, disabled, and young children under title XX of the Social Security Act. As a result of congressional action which turned a major portion of the services program over to the States and cut nearly 25 percent of Federal funding, day care centers have begun to close, mental health services for young children have been eliminated, services for the elderly and handicapped have stopped and many States have already curtailed all but those services which are literally life-saving.

With a monstrous display of insensitivity, the administration is now proposing an additional 12-percent cut in title XX social services. And we join with Governor Hunt in urging you not to recommend the cut that the administration is demanding.

There have also been cuts in the SSI program, supplemental security income. Sparing no one but the wealthy from the vengeance of Reagonomics, the administration is proposing that more than half of the poor, elderly, blind, or disabled persons dependent on SSI will have their means of livelihood eliminated or reduced. The severe cuts being sought in the supplemental security income program, along with additional cuts in educational, medical, rehabilitation, community, and social services and food and nutrition programs, would close off most avenues of survival for these most unfortunate people.

The cuts being sought in the food stamp program alone would result in eliminating or drastically reducing the benefits of 92 percent of the elderly and disabled recipient households, with the average loss amounting to $200 a year. It is beyond comprehension how they are expected to survive if these cruel cuts are enacted.

In conclusion, Mr. Chairman, the AFL–CIO urges this subcommittee to reject these unconscionable attacks on the Nation's poor and unemployed. These people and their children can afford no further sacrifice to President Reagan's ill-conceived notions and his continued efforts to wipe out 50 years of social progress.

We urge this subcommittee to recommend no further cuts in the vital programs on which millions of children, the elderly, the jobless, the disabled, the poor, and the disadvantaged depend.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF BERT SEIDMAN, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AFL-CIO

Mr. Chairman, the AFL-CIO appreciates this opportunity to present our views on the Reagan Administration's proposed cuts in the programs designed to prevent poverty and deprivation for those Americans who are battered by conditions beyond their control.

Last year the Administration requested and the Congress enacted drastic cutbacks in vital social programs forcing the needy to sacrifice while the country waited for economic recovery. While the unemployment rate has gone from 7.5 percent in 1981 to 9 percent in March 1982, billions of dollars have been cut from all of the programs designed to help the needy. Without pausing to assess the pain caused by these actions, the Administration is back asking for additional cuts which will further erode these basic life-support programs.

Today there are more people out of work than at any time since the Great Depression of the 1930's. One million jobs have been wiped out since last July leaving 9.9 million workers without jobs and other 1.3 million too discouraged to continue looking for work. Add to that the 6 million workers who, unable to find full time jobs, have been forced to accept part-time work and you have over 17 million workers who are suffering serious and painful job and income loss.

It is estimated that three million unemployed workers will have their unemployment insurance benefits cut off or reduced in

FY 1983 as a result of recent actions by the Congress. When these people are faced with a total loss of income they will join millions of other destitute Americans seeking ways to keep their families from starving. They will find that while pursuing policies which have destroyed jobs and put millions of workers on the streets seeking help, the Administration has drastically cut employment and training, welfare, medical, educational, social services and food and nutrition programs.

As the result of Congressional action in 1980 and 1981, the extended benefit program is severly restricted. The national trigger has been eliminated, and extended benefit claimants are no longer included in the calculation of the state trigger. Because of this change in the trigger calculation, the state of Michigan, despite depression levels of unemployment, stopped paying extended benefits for thirteen weeks. To prevent such tragic anomalies, it is essential that the national trigger be restored and recipients of extended benefits be included in the trigger calculation.

As the result of two additional restrictions that will become effective on October 1, 1982, extended benefits will be paid in fewer states due to the mandated increase in the state triggers and 20 weeks of qualifying employment will be required for eligibility. Millions of jobless workers in the current recession, therefore, will be deprived of unemployment compensation after they exhaust regular benefits resulting in economic disaster for them and their families.

The gap between the insured unemployment rate and the official unemployment rate continues to widen. During the 1974-1976 recession,

the gap averaged 3 percent. This differential has increased to almost 5 percent. Because each state's insured unemployment rate is the trigger for extended benefits, even the present trigger levels are too high. Rather than enacting a one percent increase, Congress should have lowered the trigger. Once the increase takes effect in FY 1983, extended benefits will not be available until the official total unemployment rate is near 11 percent.

It is estimated that in fiscal year 1983 over 3 million unemployed workers will be denied extended benefits during periods when they otherwise would have been entitled as the result of economic events over which they have no control. It is the height of unjustice to make them bear the responsibility for their unemployment under these conditions.

This situation is even more intolerable because jobless workers are finding that other resources are no longer available to them. Tightened eligibility requirements for receipt of AFDC make it virtually impossible for unemployed workers and their families to obtain any welfare assistance when they exhaust unemployment insurance benefits. Many of these workers will also be disqualified for food stamps due to the lowered ceiling on the amount of income a family can earn in order to be elibible.

During recessionary periods with accompanying high rates of unemployment, labor market conditions are such that the period of job search for unemployed workers is much longer than in prosperous times. In addition, jobless workers who are receiving unemployment compensation benefits exhaust their benefits while they seek suitable employment. Thus, the regular benefit program,

with a maximum of 26 weeks in most states, does not provide adequate protection for workers duing periods of recession-induced unemployment. Yet the Administration has proposed another negative federal standard in addition to those enacted last year. Weekly benefit amounts would be rounded to the lower whole dollar amount to save $6 million in the federal budget. These cost savings would be achieved at the expense of those receiving unemployment compensation benefits.

Since 1968 the unemployment insurance trust funds have been included in the unified federal budget. The Administration, therefore, can project outlay reductions in unemployment compensation for fiscal year 1983 even though the unemployment insurance system is basically financed and administered by the states. To reduce the likelihood of further cutbacks in the unemployment compensation programs, we urge Congress to enact legislation that would exclude the unemployment insurance trust funds from the unified federal budget.

In recognition of the necessity for additional weeks of benefits for unemployed workers during economic recession, the Congress has several times enacted legislation establishing supplemental benefit programs. In 1958 and 1961, Congress enacted one-year programs that provided supplemental benefits of one-half the regular duration up to a maximum of 13 weeks. As the establishment of these temporary programs lagged behind the need for them, a permanent extended benefit program providing up to 13 weeks of additional benefits was enacted in 1970. This program was designed to trigger on automatically during recessions based on

national and state trigger requirements. In response to continued high levels and increased duration of unemployment, temporary programs, providing up to an additional 13 weeks of extended benefit were enacted in 1971 and 1974, bringing the maximum entitlement to 52 weeks. Subsequent temporary legislation increased the maximum duration to 65 weeks through December 1975.

At this time of worsening recession and increasingly high levels of unemployment we are encouraged by the introduction of bills that would restore some of the protections to which the long-term unemployed are entitled.

The AFL-CIO welcomes the introduction by Chairman Ford of H.R. 6085 which, if enacted, would provide up to 13 weeks of supplemental unemployment compensation benefits to unemployed workers who have exhausted their regular and extended benefits. The maximum duration of benefits, therefore, would be extended to 52 weeks. While we favor a maximum duration of 65 weeks, this bill is a step in the right direction. However, since benefits would be payable under the same "trigger" used for the existing extended benefit program, repeal of the punitive cutbacks already enacted is urgently needed. We therefore support H.R. 5284 and H.R. 5452, both of which would restore the national trigger, maintain the present state trigger levels and provide for the inclu ion of extended benefit recipients in the calculation of the insured unemployment rate. H.R. 5251 would only restore the national trigger and thus does not insure the availability of extended benefits for long term jobless workers who need income protection. No legislation, however, has been introduced that would repeal

the requirement that will deny extneded benefits to any worker with less than 20 weeks of qualifying employment. This provision, effective for weeks beginning after September 25, 1982, will have a serious impact of women and minorities who experience the most difficulty in obtaining decent secure jobs and, thus have an acute need for extended benefit protection. Prior to this change, workers who qualified for regular benefits but could not find work before they exhausted those benefits were entitled to extended benefits for half the duration of their regular benefits when the trigger was "on." This negative federal standard should also be repealed.

Unemployment Compensation for Ex-Servicemembers

Until the Omnibus Reconciliation Act of 1981 was enacted, servicemembers who left the military under conditions other than dishonorable could qualify for unemployment compensation benefits. Benefit eligibility and amount had been determined by the law of the state in which the claim was first filed. Now, ex-service-members who leave the military voluntarily are no longer eligible for unemployment compensation benefits. The Administration proposes to further restrict this program. Eligibility for benefits would be limited to servicemembers discharged under honorable contitions because of demobilization, reduction in force or disability incurred while in the service. Those who must leave the military because they have failed to maintained required levels of skill proficiency would be denied benefits.

Unemployment compensation for ex-servicemembers is designed to provide weekly benefits to separated members of the armed forces while they search for employment. The limitation enacted in the Omnibus Reconciliation Act of 1981 inhibits servicemembers' freedom of choice in deciding whether or not to reenlist. If they choose not to re-enlist, they have no protection while they seek attachment to the civilian labor force. The Administration's proposal for FY 1983 would further reduce the protections to which ex-servicemembers are entitled under federal law. Military personnel should be treated at least as equitably as civilian personnel, and decisions on eligibility should be left to the states. This latest proposal further undermines equal treatment of servicemembers and should be rejected. We also urge Congress to repeal the provision that denies unemployment compensation benefits to servicemembers who do not re-enlist.

Short-time Compensation

H.R. 5904 would encourage states to modify their unemployment compensation programs to allow the payment of unemployment compensation to workers whose workweek is reduced in lieu of temporary layoff. This approach has been used successfully in some European countries. California has experimented with it since 1978, and reports from our affiliates on the California experience have been generally positive.

There are limits, however, to the benefits of short-time compensation. This approach is not an alternative to other anti-recession programs as it creates no new jobs or employment opportunities. Most American workers faced with a reduction or loss of work will have to continue to rely on the regular unemployment insurance

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There are limits, however, to the benefits of short-time compensation. This approach is not an alternative to other anti-recession programs as it creates no new jobs or employment opportunities. Most American workers faced with a reduction or loss of work will have to continue to rely on the regular unemployment insurance

program. Many state unemployment insurance trust funds are already in financial trouble. Unless carefully constructed and administered, Short-time compensation programs could further diminish the financial stability of these funds.

Short-time compensation with appropriate safeguards could be a worthwhile approach. The AFL-CIO Executive Council in its statement adopted August 5, 1981 urges that in states where short-time compensation is incorporated in the unemployment insurance program, the legislation require: (a) adequate funding for the unemployment insurance trust fund to protect the rights of all who are unemployed; (b) where workers are represented by a union, agreement with the union on short-time compensation; (c) wage replacement level of at least two-thirds of each worker's lost pay for up to 40 percent of the workweek; (d) full retention of pension, insurance, or other fringe benefits; and (e) protection against manipulation of short-time compensation that would discriminate against recently hired workers, especially minorities and women. These safeguards are necessary to protect fully those workers who may have to choose this alternative rather than lose their jobs.

H.R. 5904 provides that the amount of unemployment compensation payable would be a pro rata portion of the unemployment compensation which would be payable to the individual if the individual were totally unemployed. The AFL-CIO has long advocated the establishment of federal minimum standards to strengthen the unemployment insurance program and to assure its fairness and efficacy. Perhaps the most important of these standards is a minimum benefit of 66 2/3 percent of the worker's wage, up to 75 percent of the statewide average wage.

We continue to urge this standard as a minimum benefit both for the regular program and any short-time compensation plans which are established. We will seek to achieve this standard in the regular program and, at the same time by application in short-time compensation.

Except for the minimum benefit standard, most of the other safeguards that we urge are incorporated in H.R. 5904. However, states are not required to include these provisions in their short-time compensation programs. In order to test this concept adequately, all states must be required to incorporate these provisions. In addition, no funding is provided to the Department of Labor for the evaluations and studies required under this bill. Adequate funding for these studies is essential for the Department to fulfill its responsibilities for launching and evaluating the effectiveness of these programs.

H.R. 5904 would create a three-year experiment, the results of which will be analyzed and reported by the Department of Labor. These evaluations would greatly help to determine the efficacy and fairness of this approach. We therefore urge the enactment of H.R. 5904 with the changes we have suggested.

Aid to Families With Dependent Children

The cumulative effect of the Congressional Action in the Omnibus Budget Reconciliation Act of 1981 and the regulatory interpretation of the Act have made sweeping alterations in the Aid to Families with Dependent Children (AFDC) program that will profoundly harm poor children and their families. AFDC is the only program explicitly aimed at protecting poor children by giving

their families basic income support, and nearly 70% of the recipients are children. The program is critical to the survival and well-being of millions of children who are among the poorest of any group in America.

The cuts in federal spending combined with the consequent loss in state matching funds are resulting in the denial of the most minimal basic diet and medical care to poor children and pregnant mothers. Additional harsh provisions affecting the AFDC program are punishing the working poor, creating vast pools of forced labor, jeopardizing the jobs of those now working and denying any assistance to needy children of workers who excercise their legal right to strike. Only about half of the states have yet been able to put the changes required by Congress into place making it impossible to assess the full impact on the people affected. It is outrageous that consideration is being given to the enactment of additional measures designed to bring even more pain to the nation's poor.

When President Reagan submitted his FY 1983 budget to Congress he proposed revisions in almost every major support program that offers assistance to the nation's low income families. His budget message urged the nation "...to weather the temporary dislocations and pressures that must inevitably accompany the restoration of national, economic, fiscal, and military health." For the nation's poor, the results of the Administration's budget proposals are far worse than "temporary dislocations." In combination with the

program alterations enacted last year in the Omnibus Reconciliation Act of 1981, the FY 1983 budget proposals make poverty a more severe and permanent condition for millions of low income families. The Administration's proposals combined with last year's changes will reduce the incomes of people who are already poor, creating greater difficulty for families trying to secure the necessities of food, shelter, clothing and medical care.

As a result of last year's cuts in AFDC 750,000 families - 2,250,000 individuals - had their AFDC benefits reduced or completely terminated. This year the Administration proposes to eliminate or reduce payments to an additional 921,000 households or approximately 2,763,000 individuals. The effect would be to decrease even more drastically the financial incentive that once existed for families to work their way off of welfare and leave the millions of children in families which rely soley on AFDC with less income with which to supply the bare necessities of life. Combined with cuts in child health programs, community medical care programs, day care, and Title xx -- all of which provided essential supports to disadvantaged children -- these cuts in basic subsistence programs revoke the nation's commitment to providing support and assistance to children in poverty and enhance the likelihood of generational dependency.

The FY 1983 budget proposals affecting AFDC, food stamps, Medicaid, and housing assistance strike directly at the income of the nation's neediest families and individuals. They hurt people who have no other possible source of income: children, the disabled, the elderly, and

mothers unable to work -- a total of approximately 14 million people. They make conditions worse for large sub-groups of the poor who are already most disadvantaged: black and rural poor in the south in particular. In all areas of the country, these proposed changes would move people who are already poor even closer to complete destitution.

These are the major specific proposals of the Administration with respect to AFDC, all of which we vigorously oppose.

Requiring states to count energy assistance as income by which the AFDC grant can be reduced.

The whole purpose of trying to ease the pain caused the poor because of the outrageous increase in fuel costs in recent years would be destroyed by this provision. Although energy assistance payments have offset less than a third of the energy price increases incurred by low income families during this period, these same families would now have their AFDC grant reduced dollar for dollar by the amount of energy assistance received. The Administratic is also proposing that the food stamp benefits of these same families be further reduced to reflect energy assistance payments causing further erosion of the ability of poor people to secure the basic necessities of life.

Prorating shelter and utilities for AFDC families living in larger households.

This proposal would result in the reduction of shelter and utility

allowances to AFDC families which have found it necessary to share housing with other families. The assumption is that they no longer need the full amount of shelter assistance available to a family of their size. The fact is that the current full allotment for housing and utility costs in virtually every state is totally inadequate to provide even minimally safe and decent housing which necessitates the doubling up of families where they can. To penalize these families for doing so is not cost effective -- it's cruel.

Discontinuing benefits to a family when the youngest child reaches 16.

The 1982 budget reconciliation eliminated AFDC for youth 18 to 21 years of age. Now the Administration is proposing to further lower eligibility to age 16. The effect of these provisions is to deny benefits to young people who most need them -- children between 16 and 21 who are attending high school, vocational or technical school or college. Such an exclusion is short-sighted and insensitive. As jobs become scarce, education and training are even more essential for achieving economic self-sufficiency. If generational poverty is to be avoided, children of poor families must have full opportunity to obtain education and skills. It is this opportunity that makes the difference between long-range dependence and future productivity.

Eliminating assistance to needy families of military personnel.

In its efforts to systematically cut away at the social safety net, the Administration has arbitrarily singled out groups of people to whom assistance will be denied regardless of their need. Last

year needy families of workers who were exercising their legal right to strike were denied assistance. This year they propose to add poor families of military personnel to the list of those who will arbitrarily be determined ineligible for assistance.

Cumulative effect on the working poor -- removing the work incentive.

Instead of encouraging people to remain in the labor market, the Reagan budget for fiscal year 1982 removed practically every incentive for the working poor to continue working by reducing their income more if they worked than if they simply relied on AFDC and other income support. Further disincentives are created by the FY 1983 budget proposals in both AFDC and Food Stamps which in many cases will actually penalize work effort. The impact of this on a poor family can best be illustrated by an example drawn from an analysis done by the Center for Social Welfare Policy.

"Nationwide, the total disposable income of the average working AFDC mother and two children would fall $163 a month. Incomes for working AFDC families would be reduced so much that parents who work would generally be little better off -- or worse off -- than AFDC mothers who do not work. In 24 of the 48 states included in the study, the AFDC working mother earning average wages would end up with less disposable income than the AFDC mother who does not work. In California, the working mother would have $82 a month (or nearly $1,000 a year) less in disposable income than the mother who does not work at all."

As public policy, this reversal of incentives toward work is outrageous. Work efforts of these families should be supported, not undercut. They are the families most on the edge between financial self-sufficiency and full economic dependence. The provision of additional income to them through small AFDC supplements or food stamps is of low cost to public funds, but of high benefit in terms of preventing greater dependency and increasing economic productivity. By fundamentally altering the incentives and opportunities confronting these families, the Administration is reducing the likelihood that they will ever be able to work their way out of poverty or near-poverty subsistence levels.

Mandating forced work and abolishing the Work Incentive Program (WIN).

After restructuring the AFDC program so that people will find it advantageous to stop working in order to better provide for their families, the Administration proposes a number of punitive and illogical "remedies" for the situation it has created. It would devise a program whereby a parent choosing to work would have less income than if she did not choose to work, but at the same time threaten the mother with loss of AFDC benefits if she responds to the financial incentive by voluntarily leaving her job.

In addition the Administration seeks to mandate the often punitive and discredited system of "workfare" -- whereby parents will be forced to work at make-work jobs for no wages with no training and no hope of advancement. Under the optional program provided under

last year's AFDC changes, all but five states rejected the workfare option with the vast majority choosing to continue the existing Work Incentive Program (WIN) or an alternative program which includes greater emphasis on training, placement and other supportive services than workfare would provide.

In spite of this overwhelming preference expressed by the states, the WIN program is to be completely eliminated with workfare taking its place. It appears that contrary to the constant rhetoric coming from the Reagan Administration purporting to maximize state discretion and authority in the administration of welfare programs, eagerness to punish the poor for their poverty seems to have the higher priority.

The WIN program was specifically set up to provide the necessary training and support services to move adults permanently out of welfare dependence and into non-subsidized private sector jobs. Recognition that the program's goals have not been met has never been matched by an adequate financial investment needed to place the high number of unassigned applicants. Critics frequently ignore the simple unavailability of jobs. In FY 1981 WIN spent $389.5 million to register 1.9 million persons, provide supportive services and training to over 200,000 registrants, place 310,303 in unsubsidized jobs and thereby save $760 million in AFDC payments. Any honest intention to move welfare recipients into self-support argues for expansion of the WIN program -- not its elimination.

Making states pay for errors over 3% and reducing funds for state administrative costs.

At the same time the Administration is increasing the complexity of federal rules making it extremely difficult for the states to reduce errors, it is proposing to require the states to reimburse the federal government for all errors over 3% in fiscal year 1983, 2% in 1984, 1% in 1985 and zero in 1986. Such unrealistic error rate requirements make it clear that the proposal is not so much a serious attempt to reduce errors as it is an attempt to shift more of the program costs to the states.

Additional fiscal burdens to the states would result from the proposal to combine the federal share of the administrative costs of AFDC, Food Stamps, and Medicaid and set it permanently at 95% of the federal contribution in fiscal year 1982. There would be no adjustment for inflation in future years. The Administration estimates this proposal would reduce the federal share of state administrative costs in these programs by 12% in fiscal year 1983 and 25% by fiscal year 1986.

Mr. Chairman we urge this committee to recommend no further cuts in the AFDC program but to instead begin repairing some of the damage done in the last session by enacting the measures proposed in H.R. 5791. While much more needs to be done, by increasing the amount of earned income that is disregarded in determining AFDC eligibility and benefit amounts, at least some of the working poor would not be denied the assistance needed to supplement their meager income.

Social Services

An early victim to the retreat by government from its fundamental responsibilities came last year with the brutal reduction of funding and elimination of responsibility for providing life sustaining services to the aged, blind, disabled and young children under Title XX of the Social Security Act. Following Congressional action which turned a major portion of the services program over to the states and cut nearly 25% of federal funding effective October 1, 1981, the Administration impounded an additional 12% of funding which was reflected in smaller checks sent to the states. Most state legislatures had only begun to respond to these cuts as they began their January sessions and the full impact will not begin to be felt until the beginning of their fiscal years on July 1. Day care centers have begun to close, mental health services for young children have been eliminated, services for the elderly and handicapped have stopped and many states have already curtailed all but those services which are literally life-saving. With a monstrous display of insensitivity, the Administration is now proposing an additional 12% cut in Title XX Social Services.

If these cuts are enacted it would reduce the number of people receiving services such as day care and homemaker aid to about three-fifths of the 1981 level, from 7.7 million to 4.4 million. Such shortsighted and cruel economies will have an immediate costly effect on mothers having to leave their jobs to care for their children and the sick and elderly who will require institutionalization because

they have been deprived of services which permitted them to remain in their homes. Instead of further cuts in this vital program we recommend the provision for increased funding in H.R. 5791 which would provide an additional $200 million a year.

Adoption Assistance & Child Welfare

The next human service program in line for this special block grant treatment is that authorized by the Adoption Assistance and Child Welfare Act of 1980 which was passed by an overwhelming bi-partisan majority of Congress. Both Republicans and Democrats recognized that the continued practice of warehousing children in institutions at outrageous state expense and untold human deprivation was a national disgrace and after five years of careful deliberation provided the funds and directions necessary to return these children to family situations. Now, in spite of the overwhelming evidence demonstrating the collective failure to handle this problem, the Administration is proposing that it be turned back to the states with a 46% cut in funding. This will mean that a half-million children will be getting even less of a chance at a decent and productive life than they were getting under the old scandalous state foster care system.

Supplemental Security Income (SSI)

Sparing no one but the wealthy from the vengence of Reagonomics, the Administration is proposing that more than half of the Administration is proposing that more than half of the poor, elderly, blind or disabled persons have their means of livelihood eliminated or reduced. Supplemental Security Income (SSI) provides monthly payments to individuals with little or no other income who are aged, blind or disabled. A little over 4 million of the nation's poorest citizens receive SSI.

The Administration's proposals for the Supplemental Security Income (SSI) program represent another effort, after cuts already made in the Social Security disability program, aimed at denying eligibility for disability benefits to tens of thousands of additional disabled persons. This is in addition to the Administration's handling of the Continuing Disability Investigations (CDI) for the Social Security Disability Program which has deprived tens of thousands of disabled persons of social security benefits.

We particularly object to three proposals: (1) changing the definition of disability to require a twenty-four month, rather than a twelve month prognosis; (2) giving greater weight to medical factors in determining whether an applicant for SSI benefits is disabled and (3) eliminating for all those coming on the rolls after January 1, 1983 the existing $20 disregard of initial income. These propsals will deny SSI benefits to 35,000, 80,000 and 300,000 individuals respectively, all of them severely disabled persons with a genuine need for support.

Accompanying cuts in educational, medical, employment programs, vocational rehabilitation, community and social services and food and nutrition programs would close off other avenues of survival for these unfortunate people. The cuts being sought in the Food Stamp Program would result in eliminating or drastically reducing the benefits of 92% of the elderly and disabled recipient households -- with the average loss amounting to $200 a year. It is beyond comprehension how they are expected to survive if these cruel cuts are enacted.

In conclusion, Mr. Chairman the AFL-CIO urges this subcommittee to reject these unconscionable attacks on the nation's poor and unemployed. These people and their children can afford no further sacrifice to President Reagan's ill-conceived notions and his continued efforts to wipe out fifty years of social progress. We urge this subcommittee to recommend no further cuts in the vital programs on which millions of children, the elderly, the jobless, the poor and the disadvantaged depend.

Chairman FORD. Thank you very much.
Mr. Friedman.

STATEMENT OF SHELDON FRIEDMAN, DIRECTOR OF RESEARCH, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. FRIEDMAN. Mr. Chairman, my name is Sheldon Friedman. I am director of the UAW Research Department. I have a statement which I wish to be entered into the record. I apologize for the lateness in getting it to you.

I commend you for calling this hearing on these vital issues. All of them are of great concern to the UAW. However, my remarks today will be limited to the issue of unemployment compensation.

We are in an economic crisis of near epidemic proportions in this country. Nine percent are counted as officially unemployed, matching the May 1975 recession peak, with no end to the growth in unemployment in sight. Nearly 10 million are presently among the ranks of the unemployed, the highest figure since the Great Depression, and in the key auto States we have been in a severe depression now for nearly 3 years, in the unrelenting grip of a severe 37-month slump.

In fact, if you look at the industrial belt comprising Michigan, Ohio, Indiana, Illinois, Pennsylvania, and throwing in the adjacent States of Missouri and Iowa, in every one of those States the unemployment rate is presently in double digits. In Michigan that condition has prevailed for more than 2 years, and in March the unemployment rate was a staggering 17 percent.

I think you can see that at no time since the program's inception in the 1930's have we needed unemployment compensation more. But instead of helping with respect to that need, administration policy has led to Government actions which have made the situation even worse.

The unemployment compensation cuts enacted last summer are a prime example. Beyond the callousness of these cuts, the savings from UC cutbacks represent a false economy. Completely uncounted are the costs of rising crime and rising welfare caseloads as the unemployed are unceremoniously dumped off the benefit rolls.

We are watching a ticking time bomb in terms of public health, as deferred medical care results from income loss among the unemployed. There is a ripple effect throughout our Nation, and especially in the industrial heartland, which is causing stores to close, car dealers to go out of business, and literally causing grass to grow on the Main Streets of the towns throughout the industrial sector of our country.

Too many have forgotten, it appears, that the unemployment compensation system is supposed to be the Nation's front line of defense to protect workers' incomes against the devastating impact of unemployment, and also to stabilize the economy against the devastating impact of recession. Both goals have been seriously weakened by the 1981 Budget Reconciliation Act changes.

And the administration is now proposing more of the same, illustrated by its miserly proposal to round benefits down to the nearest dollar. Even before last summer's cuts, the unemployment compensation system was seriously inadequate, as the findings of the National Commission on Unemployment Compensation clearly indicate, findings which I am sad to say have been largely ignored to date.

UAW participated actively in the work of that Commission and submitted detailed recommendations, which appear as timely now as when they were prepared. I therefore request, with your permission, that we be allowed to submit for the record of these proceedings a copy of the recommendations that we made to the National Commission on Unemployment Compensation.

[The information referred to can be found in the subcommittee files.]

Mr. FRIEDMAN. In terms of the current crisis we are in, it is an urgent priority that the cuts enacted last summer be rescinded. This would be done, in large measure, by several of the bills under consideration today. Those bills are badly needed and a welcome step.

In particular, it is important that we again be able to count extended benefit recipients among the insured unemployed. The concern regarding symmetry that led to the change last summer was based on flawed logic. Just because people exhaust regular unemployment benefits in no way means that the job picture has brightened for those people or in the States where they are living.

The old measure captured the cyclical increase in exhaustions which is precisely what the trigger is supposed to do. The impact of last summer's change is graphically illustrated in the case of Michigan, where, despite the fact that we have the highest unemployment rate in the Nation, extended benefits triggered off last November due to the Alice-in-Wonderland exclusion of extended benefit recipients from the insured unemployed calculation. We therefore welcome H.R. 5284 and H.R. 5452, which would redress this inequity.

In addition, the national trigger must be restored. We presently have a serious inequity that is illustrated, for example, by communities like Buffalo, which have extremely high unemployment rates—right now in the case of Buffalo some 14 percent—yet, because the State in which that community is located has not "trig-

gered on," workers who reside in Buffalo are not receiving extended benefits.

We commend the fact that several of the bills under consideration would restore the national trigger, an urgent need.

The State trigger changes which are scheduled for September must be rescinded as a matter of urgent priority. During the last week in March the extended benefit trigger was on in 27 States. By our estimates had the changes scheduled for next September been in place, 10 of those 27 States would have been knocked out of eligibility, affecting some 130,000 of the 555,000 extended benefit recipients—nearly one-quarter of the total.

Beyond rescinding the regressive changes enacted last summer, additional improvements are urgently needed in the system of unemployment compensation. We therefore welcome the chairman's bill, H.R. 6085, which would provide up to an additional 13 weeks of benefits, raising the maximum possible duration to 52 weeks. This would move us toward where we were during the recessions of the seventies, when in fact, during the 1975 recession, benefits were available up to a maximum of 65 weeks.

Indeed, the UAW recommends that 65 weeks of benefits be available whenever the national unemployment rate exceeds the 4 percent goal set forth in the Full Employment and Balanced Growth Act of 1978.

Turning to Representative Schroeder's bill, we support her efforts on behalf of the short time compensation concept and are in accord with H.R. 5904. We are pleased with the union approval provision which has been incorporated into that bill.

Apart from the features of the bills mentioned, the UAW urges as a matter of the highest priority an emergency program to provide health insurance protection for unemployed workers. I fear that we are facing the emergence of a major public health catastrophe, as the unemployed defer badly needed medical attention due to the lack of any kind of insurance coverage in all too many instances.

In summary, last summer's cuts must be rescinded and as a matter of urgent priority the scheduled September 1982 changes stopped. The current maximum of 39 weeks of benefits is woefully inadequate and must be extended. The short time compensation concept should be encouraged. And beyond this, the findings of the National Commission should be implemented at a minimum and improved upon where they are inadequate. We urgently need an emergency program to provide health care for the unemployed.

I appreciate this opportunity to present the UAW's views to you. Thank you.

[The prepared statement follows:]

STATEMENT OF SHELDON FRIEDMAN, RESEARCH DIRECTOR, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA, UAW

Mr. Chairman, my name is Sheldon Friedman. On behalf of our 1.3 million members, I thank you for this opportunity to express the UAW's views on the five bills that have been proposed to undo the damage that the Unemployment Compensation system suffered as a result of the Omnibus Budget Reconciliation Act of 1981. We commend members of the Subcommittee for holding these hearings and proposing legislation desperately needed by far too many unemployed workers, including the one million workers who have lost their jobs as a result of the auto industry's disastrous 37 month slump. At a time when the Reagan Administration is oblivious to the problems of severe and long-term unemployment which its policies have done so much to create, it is gratifying that some members of Congress are not willing to forget the economic hardships imposed on millions of workers by the current recession and the injustices of the Administration's economic program.

Nationwide unemployment has reached a crisis level as over 9.9 million workers are jobless — more than at any time since the Great Depression — including approximately 4.9 million receiving unemployment insurance benefits. The overall unemployment rate of 9.0 percent matches the May 1975 peak for the post-World War II period, and threatens to climb even higher in coming months.

Economic activity has plummeted since last July, leading to a sharp deterioration in the job market. Over the past seven months, 2 million more workers have been added to the number of unemployed, with no group escaping rising joblessness. In auto, where unemployment was at crisis proportions even before the current national

recession, since last summer tens of thousands of workers have been added to the ranks of the indefinitely laid off.

Tragic as these figures are, they hide the true severity of the problem. The record-high 5.7 million workers who cannot find full-time jobs and who must work part-time are excluded, as are the more than one million discouraged unemployed.

And the outlook is bleak: many more workers will suffer from joblessness before this recession is over. Many private economists are predicting an unemployment rate of 9.5 percent or higher before the current recession is over, and predictions for an upturn are continually being pushed further into the future. Even top Administration officials are acknowledging that the economy is "dead in the water" and are predicting that the current recession will drive unemployment to 10 percent this year.

The federal-state unemployment insurance system was erected in the mid-1930's in recognition of the enormous costs borne by unemployed workers as a result of economic, political, and social forces over which they have no control. Two major goals were set: first, to cushion workers against economic hardship when they become unemployed through no fault of their own; second, to bolster purchasing power when total spending is declining, thereby helping to automatically stabilize an historically cyclical economy. The two goals are closely related — an adequate level and duration of benefits are required to ease private hardships and bolster a community's total purchasing power during a period of economic decline and increasing unemployment.

The changes in the unemployment insurance system enacted as part of the Omnibus Budget Reconciliation Act of 1982 seriously weakened the program and its role as a first line of defense against the hardships brought about by rising unemployment. Not only have unemployed workers and their families suffered by the shredding of the already threadbare safety net provided by the unemployment insurance program, but businesses have suffered as well due to the rapid shrinkage of purchasing

power in their communities. The number of workers exhausting their regular state benefits has been increasing sharply and far too few exhaustees have been "fortunate" enough to live in high unemployment states that are paying extended benefits. The costs arising from unemployment and the exhaustion of benefits are being borne privately in the homes of the unemployed — private costs that range from financial insolvency and the inability to pay for urgently needed medical care to the rise in intra-family tensions and health care problems. The costs also are being borne socially as the long term impacts of higher crime, community instability, and mental health problems associated with increasing unemployment begin to spread.

The erosion of the unemployment insurance system has served to undermine its role as an automatic economic stabilizer and thereby has contributed both to the accelerating rate at which the economy has plummeted and to the accompanying rash of business bankruptcies, especially of smaller businesses that are directly dependent on consumer spending. Recent tallies indicate that business failures in 1982 are headed for the highest level since 1932. Much of the blame falls squarely on the high interest rate policies of the Federal Reserve Board and the rapid succession of the current slump following on the heels of the 1980 recession. Many businesses simply were unable to rebuild their financial resources following the 1980 downturn, and could not withstand the continued high interest rates and declining revenues. But beyond this, the sharp cutbacks in unemployment benefits have worsened the recession by weakening the automatic stabilizing role of the program.

While countless businesses have been weakened financially by two successive economic slumps in less than three years, the finances of millions of workers have been depleted by recurrent long spells of unemployment. Common sense and research studies conducted in the last decade inform us that workers react to unemployment and the loss of wages and benefits by cutting back on spending and by resorting to savings and to loans from family and friends. Many workers already depleted their

meager savings during the last downturn and are not in any position to draw on their savings or the goodwill of family and friends. By restricting unemployment benefits to 26, or even 39 weeks, the Administration's economic program is condemning many of the long-term unemployed to poverty and virtual destitution at a time when job prospects often do not exist.

We urge Congress to restore the benefits previously cut and thereby restore the integrity of the unemployment insurance system. We urge the members of the Subcommittee to turn back from the Administration's misguided path of narrow-minded, mean-spirited and short-sighted attacks on the living standards of the unemployed. The Administration's most recent proposal for further cutting unemployment benefits calls for amending the Federal Unemployment Tax Act to require states to round down an individual's weekly benefit to the next lowest full dollar. The sheer pettiness and miserliness of this proposal clearly reveals the Administration's attitude towards the unemployed, an attitude forming the basis for policies that are shredding the social fabric.

The UAW has long called for an overhaul of the unemployment compensation system that was established in the midst of a severe depression, under the constraint of Constitutional questions resolved long ago. We supported the creation of the National Commission on Unemployment Compensation in 1976. Regional Director Ken Morris, a member of the UAW International Executive Board, served on the Commission along with other labor representatives and representatives from the business community and the public sector. The UAW presented to the Commission a comprehensive proposal that remains fully relevant today; we urge its careful study by members of this Subcommittee.

The National Commission performed the first comprehensive study of the patchwork of state and federal programs that make up the unemployment insurance system, and came out with a full report and recommendations in July 1980.

Unfortunately, its findings have been virtually ignored. A full review of the Commission's recommendations and a complete overhaul of the unemployment compensation system are long overdue. The UAW intends to take part in the process and we fully intend to present our proposals when such discussions are conducted. For the purpose of today's hearing, we will restrict our comments to the specific legislation under consideration.

For background purposes, it is important to review the National Commission's recommendations for dealing with the problems of the long-term unemployed. The Commission recommended continuation of the state and national extended benefit programs, with a single insured rate trigger of 4% for the state program and 4.5% for the national program. Furthermore, the Commission advanced a proposal for a permanent two-tier supplemental extended benefit program that would provide up to 52 weeks of benefits when the state insured rate reaches 4.5% or when the national insured rate reaches 5%, and to provide up to 65 weeks of benefits when either of the two insured rates reaches 5.0 percent or 5.5 percent, respectively. The Commission recommended financing this program through Federal general revenues.

The UAW heartily supports the legislation now under consideration — to restore the integrity of the federal-state extended benefit program, to add an additional 13 weeks of extended benefits, and to encourage the states to allow for short work compensation benefits.

Restoring the integrity of the federal-state extended benefit program, as proposed by Representatives Eckhart and Minish in H.R. 5284 and H.R. 5452, will require several changes, as detailed in what follows.

Computation of the insured unemployment rate should count among the "insured unemployed" recipients of extended benefits, and should not be restricted to claimants receiving regular state benefits. Proponents of the computation method enacted last summer, which excludes extended benefit recipients, argue that it not only

cuts "costs," but also is more equitable because it defines the level of unemployment identically for both "on" and "off" triggers. The former method counted recipients of state benefits for triggering "on," and recipients of both state benefits and extended benefits for triggering "off." In our view, the former method not only provided a better measure of unemployment, but it also represented a more equitable measure. While the former method counted exhaustees of state benefits precisely when exhaustion rates are most likely to rise — in the midst of a recession — the current method misses all fluctuations in the exhaustion rate by counting only recipients of state benefits. Furthermore, by ignoring all exhaustees of regular state benefits, the current method punishes exhaustees in states experiencing a combination of declining rates of job loss and stagnant employment growth.

The "cost savings" effects of this obscure but devastating technical change in the method for computing the insured unemployment rate were felt by Michigan's unemployed workers several months ago. With the State's total unemployment rate hovering at about 12% — the highest of any state in the country, though it is now over 16% — the insured unemployment rate fell below 5% in early November. This led to the cut-off of extended benefits for the 13 weeks between the end of November and the first week in March. Had recipients of extended benefits been counted, the insured unemployment rate would have been in excess of 6% and payment of benefits would not have been interrupted. Suspension of the program hurt the more than 30,000 Michigan claimants then receiving benefits, and hurt the much larger number who exhausted regular state benefits in subsequent weeks. Tens of thousands of state benefit exhaustees suffered through a cold harsh winter, made bleaker by a "cost saving" budget cut that has produced an illogical measure of unemployment which ignores all benefit exhaustees — on the Alice-in-Wonderland notion that a decline in the number of regular state benefit recipients necessarily reflects an improvement in employment opportunities for the long-term unemployed.

The program for paying extended benefits in all states when the national insured unemployment rate exceeds 4.5% must also be revived, as proposed by Representatives Guarini, Eckhart, and Minish. The national extended benefit program is essential in bolstering purchasing power and in protecting unemployed workers concentrated in high unemployment areas of states otherwise not paying extended benefits. Had the national trigger not been eliminated and the insured unemployment rate computation not been changed, extended benefits would today be available in every state. Regular benefit exhaustees in the metropolitan Buffalo area, where the total unemployment rate exceeded 14% in February, can take little comfort in the fact that New York State (with an unemployment rate of 9.0%, unadjusted) is not considered a high unemployment state with its insured rate of 4.24% in mid-March.

The increases in the insured rates for individual states to trigger "on" the extended benefit program, which are to go into effect in less than 6 months, must be rescinded. During the last week in March, exhaustees of regular benefits in 27 states were eligible for up to 13 additional weeks of extended benefits. If the soon-to-be tightened trigger requirements had already been in effect (5% thirteen-week average insured rate and 20% higher than the insured rate in the same weeks in prior two years, or 6% insured rate in the states selecting this optional trigger), exhaustees in ten states would no longer have been eligible for the additional weeks of benefits. Over 130,000 claimants, or almost one-fourth of the 550,000 recipients receiving extended benefits, would have been penalized by this change during that one week alone. Hundreds of thousands of exhaustees of state benefits similarly will be denied extended benefits if this change goes into effect. We urge Congress to head off the further tragedy that clearly will result from the scheduled increases in the extended benefit triggers.

Rescinding the cutbacks in state and national extended benefit programs will afford unemployed workers much of the income protection they require while unemployed due to forces beyond their control. However, in the current period of

massive unemployment, additional protection is urgently needed. H.R. 6085, proposed by Representative Ford (D-Tenn.), helps address the problems of the long-term unemployed by providing up to 13 additional weeks of benefits to exhaustees of extended benefits, thereby providing a maximum duration of 52 weeks.

Some members of the Subcommittee may recall that during the two recessions of the 1970's, legislation was enacted to extend unemployment benefits for durations of as long as 65 weeks. Between January 1972 and March 1973 benefits were extended for an additional 13 weeks, up to a maximum of 52 weeks. Benefits became payable for an additional 13 weeks to exhaustees of extended benefits between January and March 1975, for 26 additional weeks (up to 65 weeks) between March 1975 and March 1977, and for 13 additional weeks (up to 52 weeks) until January 1978. The 13 additional weeks of potential benefits payable between April 1977 and January 1978 were financed by general revenues and no payments were made more than two years after the end of the benefit year for which claimants exhausted regular benefits.

As indicated earlier, the most recent monthly unemployment rate of 9.0% in March matches the post-World War II peak unemployment rate. Unemployed workers now face far bleaker prospects than they did during the depths of the 1974-75 recession, yet benefits are available for a shorter duration than during any recent recession.We therefore welcome Representative Ford's proposal for extending benefits up to 13 additional weeks. We recommend that it be expanded as a permanent program providing for a maximum benefit duration of 52 weeks under normal circumstances and no less than 65 weeks when unemployment at the national level exceeds the 4% goal set forth in the Full Employment and Balanced Growth Act of 1978.

Lastly, we commend Representative Schroeder for her steadfast commitment to reduce the hardships of unemployment by encouraging states to adopt short-time compensation programs, as proposed in H.R. 5904. The bill recognizes the need for joint management-union agreement prior to institution of such programs in

the workplace, thereby precluding their arbitrary imposition by management. We support H.R. 5904 as it has been formulated, and suggest that it be expanded to cover part-time employees as well as full-time employees.

In conclusion, the UAW applauds this Subcommittee and its Chairman for holding this hearing on issues of such vital importance to millions of working people. We strongly support proposed legislation rescinding the extended benefit cutbacks contained in the Omnibus Budget Reconciliation Act of 1981; supplementing the extended benefit program with a permanent program providing up to 52 weeks of unemployment benefits; and encouraging the States to adopt short-time compensation programs.

Mr. Chairman, I appreciate the opportunity to share with you and members of your Subcommittee our views on the proposed legislation, which we believe is vital for protecting workers and their communities against the debilitating effects of long-term unemployment.

Thank you.

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Chairman FORD. Thank you very much, all three of the witnesses.

First, Mr. Friedman, in Michigan could you tell me, since I have introduced legislation to provide up to an additional 13 weeks of unemployment benefits, could you tell me whether or not you would have any number statistics on the number of workers who have already exhausted all of the 39 weeks of benefits available under current law.

I know Michigan triggered back on, I think, in March. But I was really concerned about those who maybe had already exhausted the total number of weeks prior to Michigan triggering back on for the additional 13 weeks. And I am sure that those who were eligible after Michigan triggered back on, maybe 4 or 5 weeks ago, will be running out of their benefits very soon.

Mr. FRIEDMAN. At the time when extended benefits triggered off in November, about 33,000 people were dumped off of the program, and at that time the State unemployment rate was 12 percent. Right now the unemployment rate has climbed to 17 percent, and while I do not have a figure handy I think it is safe to say that far more than 33,000 would be standing to run out of benefits.

I would be glad to get the requested information and submit it to the committee.

Chairman FORD. Michigan triggered back on when, in March?

Mr. FRIEDMAN. In March.

Chairman FORD. What was it, the middle part of March?

Mr. FRIEDMAN. It was the early part.

Chairman FORD. The early part of March. So in other words, some unemployed workers might be into the 6th or 7th week of the extended benefits, is that correct?

Mr. FRIEDMAN. That is correct. And of course, we are picking back up a number of people who still had some credits left when they were dropped off the program.

Chairman FORD. They will be dropping off, though, in the coming weeks, is that right?

Mr. FRIEDMAN. Yes, indeed.

Chairman FORD. I would like to have, if you do not mind, any additional information as it relates to numbers of those who have already exhausted all benefits.

I would like to see some of those figures for the next coming weeks.

Mr. FRIEDMAN. Congressman, I would be pleased to submit that information to you.

[The following information was subsequently received:]

8000 EAST JEFFERSON AVE.
DETROIT, MICHIGAN 48214
PHONE (313) 926-5000

UAW INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA-UAW

DOUGLAS A. FRASER, *PRESIDENT* RAYMOND MAJERUS, *SECRETARY-TREASURER*

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April 27, 1982

Congressman Harold Ford
Room 2445
Rayburn Building
U.S. Capital
Washington, D.C. 20515

Dear Congressman Ford:

It was a pleasure to appear before your subcommittee last week, to present the UAW's views on unemployment compensation.

Per your request, attached are tables on UI exhaustions (regular and extended) in Michigan, Ohio and Indiana over the last few years.

With respect to projected exhaustions in Michigan, according to the Michigan Employment Security Commission exhaustions of regular UI benefits over the next several months are expected to range between 16,000-20,000 a month.

Exhaustions of extended benefits are expected to begin again in March and will probably rise to about 16,000 a month in the months ahead.

Please let me know if you have any questions or if I can be of further assistance.

Sincerely,

Sheldon Friedman

Sheldon Friedman
Research Director

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attach.
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OHIO

Unemployment Insurance Benefit Exhaustions

	1980		1981		1982	
	Reg.	Ext.	Reg.	Ext.	Reg.	Ext.
Jan.	9,477		19,284	12,023	12,255	c/
Feb.	9,303	a/	15,586	12,259	12,258	
Mar.	10,618	3	14,007	12,862		
April	12,203	45	13,606	11,254		
May	15,085	13,915	13,416	10,249		
June	17,003	9,416	12,944	8,415 b/		
July	19,196	9,383	13,156			
Aug.	14,749	10,290	9,764			
Sept.	14,824	11,401	9,334			
Oct.	18,928	11,913	9,608			
Nov.	17,791	8,202	9,235			
Dec.	21,073	10,285	12,635			
Total	180,250	84,853	152,575	67,062		

a/ 2/17/80 triggered on
b/ 6/20/81 triggered off
c/ 1/17/82 triggered on
SOURCE: State Employment Security Commission

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4/26/82
DD:WC

MICHIGAN

Unemployment Insurance Benefit Exhaustions

	1980		1981		1982	
	Reg.	Ext.	Reg.	Ext.	Reg.	Ext.
Jan.	21,637	20,425	26,020	19,169	16,355	
Feb.	21,397	10,884	23,103	17,888	17,113	b/
Mar.	23,431	12,757	24,410	18,199		
April	25,457	16,208	23,021	18,533		
May	27,046	17,704	18,325	16,182		
June	27,270	18,542	16,094	14,609		
July	34,612	20,963	16,479	11,189		
Aug.	26,295	18,284	15,980	7,326		
Sept.	22,708	18,487	11,952	7,028		
Oct.	27,584	19,775	10,561	7,775		
Nov.	23,401	15,392	11,247	7,045 a/		
Dec.	27,567	19,014	18,062	2,116		
Total	308,405	208,435	215,254	147,059		

a/ 11/7/81 triggered off
b/ 2/28/82 triggered on
SOURCE: State Employment Security Commission

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4/26/82
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INDIANA

Unemployment Insurance Benefit Exhaustions

	1980		1981		1982	
	Reg.	Ext.	Reg.	Ext.	Reg.	Ext.
Jan.	7,809		9,849	6,095	7,624	1 c/
Feb.	6,253		8,152	5,496	8,075	47
Mar.	7,167	a/	7,627	5,346	11,763	5,999
April	9,836	628	9,704	6,387		
May	8,181	4,715	6,378	4,551		
June	9,264	6,920	7,412	4,151 b/		
July	11,748	9,360	5,531			
Aug.	9,763	5,919	4,539			
Sept.	9,132	6,111	5,515			
Oct.	10,922	7,052	4,108			
Nov.	7,254	5,150	3,955			
Dec.	9,955	6,600	7,219			
Total	107,284	52,455	79,989	32,026		

a/ 3/23/80 triggered on
b/ 6/12/81 triggered off
c/ 1/31/82 triggered on
SOURCE: State Employment Security Commission

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4/26/82
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Chairman FORD. Also, you testified in support of H.R. 5284 and H.R. 5452, the legislation that would repeal the changes made in the extended benefits program enacted in the 1981 Reconciliation Act. With regard to that legislation, you know, the administration has opposed these bills because of their fiscal impact. Many of those who are concerned about our unemployment problem are also concerned about their budget impact.

We have had the Budget Committee members tell us that the fiscal impact would be so severe, until they are not sure that we could act upon legislation to rescind the reconciliation changes and restore prior law. I am just wondering, can you comment or can any of the three of you comment on the $4 or $5 billion cost of repealing those changes.

Mr. SIEDMAN. Mr. Chairman, we are very much concerned with the fact that there are going to be millions of workers in this country who will be exhausting their unemployment insurance benefits. This would have occurred anyway, even if we had the national trigger, even if we had not changed the basis of the calculation. It would have happened to some people. But it would not have happened to as many as a result—as now results from the very, very sharp restrictions which have been introduced in the unemployment insurance law.

There is another factor which we have to take account of and we have been trying to find out the reasons for it, and that is that there is a divergence, an increasing divergence between the insured unemployment rate and the total unemployment rate. And since the triggering is always based on the insured unemployment rate and not the total unemployment rate, we find that at higher and higher levels of total unemployment the insured unemployment rate is at a lower level and therefore does not trigger on either in the State or, when it was available, in the Nation.

So that we are very much in favor of those bills which would not only extend the duration of extended benefits, but would also remove these very sharp restrictions on the extended benefit program. We think that the needs of those people have to be met in one way or another.

As far as the impact that this has, the fiscal impact that this would have, the AFL-CIO has submitted, perhaps not to this subcommittee but to other Subcommittees of the Ways and Means Committee, an alternative to the budget proposals of the administration. And I would be glad to make that information available to this committee.

But the AFL-CIO has proposed a number of ways of dealing with the fiscal question, so that the kinds of recommendations that we are making in this subcommittee can be financed.

Mr. FRIEDMAN. Mr. Chairman, if I might elaborate briefly on the question of the deficit. It is clear at this point, particularly for this fiscal year and on into the next one, that much of the deficit is the result of the recession, and the last thing that you would want to do is curb the kinds of programs that represent automatic stabilizers, such as the unemployment compensation program, that prevent the economy from sliding even further into the trough.

Mr. SIEDMAN. Mr. Chairman, if I may I would like to introduce into the record a statement by the AFL-CIO Executive Council en-

titled "An Alternative to Reagonomics," which has attached to it a fact sheet indicating the sources of increased revenues and savings which we think could be enacted to improve the fiscal situation. And we have indicated in detail where we think approximately $64 billion could be obtained, and with an additional possibility of $47 billion, from the closing of various tax loopholes which mainly benefit the wealthy corporations and the well to do elements of the population.

Chairman FORD. Thank you. That will be made a part of the record.

[The statement referred to follows:]

Statement by the AFL-CIO Executive Council

on

An Alternative to Reaganomics

February 15, 1982
Bal Harbour, Fla.

The Reagan Administration economic policies, which caused the current recession, must be reversed. This recession has rapidly become the worst since the Great Depression.

The Republican Administration cannot blame anyone else for this recession. The recession was started in July 1981 with Reagan's job-destroying, tight-money, budget-slashing policies. These policies must be stopped. Anti-recession, job-creating programs must be started immediately.

The unfair and excessive tax giveaways of 1981 must be changed to achieve greater equity, pay for the anti-recession program and reduce the runaway Reagan deficits. And the President's second-round budget cuts must be blocked.

The Administration has saddled monetary policy with an unbalanced fiscal policy resulting from President Reagan's huge tax giveaways to the wealthy. This abdication of fiscal responsibility by the Administration places excessive strain on the monetary system and leads to continued high interest rates that further worsen the recession.

The catastrophic economic problems the Administration has created are made even worse by a cruel and regressive ideology which rewards the rich, forgets the jobless, punishes the minorities, ignores the poor and destroys protections for working people, the elderly and the needy.

The President's 1982 State of the Union Message and his Budget Message add up to a total disregard for human needs and for the economic and social costs of high unemployment and recession. Nothing in his proposals will help jobless workers or hasten economic recovery. The President's "new federalism" should not divert public attention from the Administration's blatant failure. The President would thrust basic national responsibilities

upon the states, which have historically failed their responsibilities. He would undercut the Constitution and turn America back to the chaos of the Articles of Confederation.

In the year since the Reagan Administration has taken office, adult breadwinners and blacks and other minorities have suffered worse unemployment than anytime since the Great Depression of the 1930s.

Official statistics concede that some 9.3 million men and women are now without jobs. But the true dimensions of the economic crisis are worse than the unemployment statistics.

In addition, another 1.2 million discouraged workers have stopped looking for non-existent jobs. These "hidden unemployed" don't show up in the government's unemployment rate.

Another 5.4 million workers want full-time jobs but can find only part-time jobs. These men and women and their families are suffering from reduced workweeks and reduced income.

Today America has nearly 16 million men and women who are suffering serious job loss and income loss. The real unemployment rate is 12 percent.

During 1982, one out of every three people in the labor force, more than 30 million Americans, will suffer some unemployment.

President Reagan tells us to wait. The Reagan Administration accepts the recession as unavoidable and engages in wishful thinking that a trickle-down investment boom will develop by itself in this depressed economy, even though the government's own statistics show that the business community has no such plans.

But millions of Americans are suffering and cannot afford to wait. Americans need jobs to put food on the table, pay the mortgage or rent and live in dignity.

An Alternative to Reaganomics

Instead of acting to counter the deepening economic decline, the Reagan Administration has cut unemployment insurance benefits, reduced employment and training programs, and welfare assistance at the same time it has destroyed more than one million jobs putting more people on the streets in search of help that's not there. One has to look back 50 years to see such a heartless official reaction to the hardship and suffering of millions of unemployed Americans.

The AFL-CIO calls upon the Congress to reverse these economic policies and set the nation on a path to full employment and balanced economic growth.

OPPOSE BUDGET CUTS

We urge the Congress to reject the newly proposed budget cuts of $41 billion which follow cuts of $33 billion last year. The serious impact of this new budget on workers and the poor is evident in a partial listing:

* Job training programs would be slashed even further from last year's cuts.
* Trade Adjustment Assistance would be practically eliminated.
* Railroad workers' retirement, unemployment and sickness insurance would be eliminated as a separate program.
* Medicare benefits for the elderly and severely disabled would be scaled back.
* Federal employment would be cut by 75,000 over the next two years.
* Federal pay increases would be capped at 5 percent, regardless of comparability with the private sector.
* Retirement benefit protections for federal workers would be lowered.
* Housing support for low- and middle-income families would be curtailed or eliminated.
* Maritime construction support (CDS and Title XI) would be eliminated and operating subsidies (ODS) phased out.

* Mass Transit aid would be cut.
* Railroad transportation funds (Amtrak) would be reduced.
* Educational help to the disadvantaged would be lowered.
* Vocational Education support would be trimmed.
* Student aid and student loans would be cut back even further than last year.
* Economic Development Aid to communities would be terminated.
* Sewer and water treatment support would be postponed.
* Energy programs would be curtailed.
* Energy assistance to low-income families would be cut.
* Child nutrition would suffer further cuts.
* Welfare and food stamp programs would be sharply curtailed.
* Medicaid for the poor would be further reduced.
* Day care, foster care, adoption and child welfare would receive less.

RAISE REVENUES

In order to provide the funds for national priorities and basic protections to workers and the poor, as well as to provide funds for new job programs, the AFL-CIO calls upon Congress to undo the worst aspects of last year's tax giveaways to corporations and the wealthy. We also propose the closing of some long-standing tax loopholes.

Specific changes in the 1981 tax law should:

* Cap the 1982 and 1983 individual tax cuts at $700 per family.
* Repeal the leasing of tax credits by corporations.
* Repeal the new loopholes in the oil windfall profits tax.
* Modify the widened estate and gift tax provisions
* Repeal the future indexing of tax rates.

In addition, Congress should correct these tax loopholes:

* Change the foreign tax credit to a tax deduction.
* Repeal the foreign tax deferral privileges.
* Repeal the tax deferrals of the Domestic International Sales Corporation (DISC).
* Repeal the immediate write-off of oil and gas drilling costs and the special depletion allowances.
* Reduce the Investment Tax Credit to its former levels.
* Apply the lower corporate income tax rates only to corporations with profits of less than $100,000.
* Phase out the special capital gains exclusions.
* Repeal the special capital gains at death exclusions.

Defense expenditures should be scrutinized carefully, and any increases found necessary should be financed by a separate and equitable surtax on corporations and individuals.

CREATE JOBS

The Congress needs to enact a number of programs to provide jobs, alleviate the suffering of the unemployed, and turn around the worsening recession:

* Invest in public infrastructure for the nation's deteriorating communities, including sewer, highway, bridge, mass transit, railroad, and other needed facilities.
* Invest in human capital through effective training of the unemployed and provide public employment opportunities for those who still cannot find work after lengthy searches.
* Encourage low- and moderate-income housing.
* Establish a Reconstruction Finance Corporation to rebuild the nation's industrial base by aiding sectors of the economy and of the country that need special

assistance through loans, grants or guarantees.

- Limit harmful imports that aggravate the impact of the recession and weaken key industries.
- Extend unemployment insurance benefits to protect the long-term jobless.

The Congress should reject the Administration's call for "Enterprise Zones" that would create new sub-classes of citizens and instead, strengthen programs that directly address the problems of unemployment and deteriorating neighborhoods.

The President and the Federal Reserve should exercise their authority to control credit and channel funds to productive purposes, including housing, and to restrict unproductive credit flows for corporate mergers, speculative excesses and foreign investment.

The undue reliance on tight monetary policy, huge budget cuts in social programs, and big tax cuts for the wealthy must be reversed. Tax policy must provide sufficient funds for the nation to fulfill its responsibilities to its citizens, and to provide appropriate balance to the Administration's one-sided monetary economic policy. Budget cuts cannot become an end in themselves -- but should be evaluated in terms of justice and need.

The AFL-CIO is convinced that this alternative economic program will put the nation on a path to achieve full employment, stable economic growth, fairness in sharing burdens and a society with compassion for those who have too little.

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AFL-CIO Fact Sheet

with

An Alternative to Reaganomics

The Alternative provides for: increase revenues from undoing the worst aspects of last year's tax giveaways, scrutinizing defense outlays and financing any required increases with a corporate and individual surtax, restoration of newly proposed budget cuts, and establishing new jobs programs. It points out ways to raise additional revenues by closing specific tax loopholes:

INCREASED REVENUES

Increased Revenues from Revisions of Tax Law

	Anticipated Revenues (in billions)
Cap the 1982 and 1983 individual tax cuts at $700 per family	$20
Repeal the leasing of tax credits by corporations	8
Repeal the new loopholes in the oil windfall profits tax	2
Modify the widened estate and gift tax provisions	1
Repeal the future indexing of tax rates	--
Total	$31 billion

Increased Revenues from Savings

Scrutinize defense outlays and finance any required increases with a corporate and individual surtax	
Current proposed defense budget increase	$33
Total	$33 billion

Total of Increased Revenue & Savings $64 billion

An Alternative to Reaganomics Fact Sheet

NECESSARY OUTLAYS

New Jobs Programs

	Anticipated Expenditures (in billions)
Invest in public infrastructure for the nation's deteriorating communities, including sewer, highway, bridge, mass transit, railroad, and other needed facilities	$ 5
Invest in human capital through effective training of the unemployed and provide public employment opportunities for those who still cannot find work after lengthy searches	5
Encourage low- and moderate-income housing	5
Establish a Reconstruction Finance Corporation to rebuild the nation's industrial base by aiding sectors of the economy and of the country that need special assistance through loans, grants or guarantees	4
Limit harmful imports that aggravate the impact of the recession and weaken key industries	--
Extend unemployment insurance benefits to protect the long-term jobless	4
Total	$23 billion

Restore Budget Cuts

Restore Proposed Budget Cuts	41
Total	$41 billion

Total New Jobs & Restoring Budget Cuts **$64 billion**

An Alternative to Reaganomics Fact Sheet

ADDITIONAL REVENUES

Additional Revenue Raising Proposals Achieved by Closing Specific Tax Loopholes

	Anticipated Revenues (in billions)
Change the foreign tax credit to a tax deduction	$10
Repeal the foreign tax deferral privileges	1
Repeal the tax deferrals of the Domestic International Sales Corporation (DISC)	2
Repeal the immediate write-off of oil and gas drilling costs and the special depletion allowances	6
Reduce the Investment Tax Credit to its former levels	7
Apply the lower corporate income tax rates only to corporations with profits of less than $100,000	9
Phase out the special capital gains exclusions	6
Repeal the special capital gains at death exclusions	6
Total	$47 billion

Total Additional Revenues from Closing Loopholes **$47 billion**

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Chairman FORD. Mr. Seidman, you mentioned in your testimony the administration's proposed 12 percent reduction in title XX social services. You testified that the AFL–CIO is opposed to such a cut. I have introduced H.R. 5791, which increases the title XX social services by $200 million per year. I take it you would advocate really trying to restore the program back to the funding level prior to the reconciliation bill.

I was just wondering if you would comment on that, and whether or not the AFL–CIO would support my legislation or not.

Mr. SEIDMAN. Yes. In our full statement—I did not have time to mention it but in our full statement we specifically endorse your recommendation

Chairman FORD. I noticed you oppose the additional 12-percent cut that is being proposed, but I was just wondering about the legislation that was in the hopper now, so thank you.

Mr. Rousselot.

Mr. ROUSSELOT. Thank you, Mr. Chairman. We appreciate you gentlemen being here to help consider various proposals that are before the subcommittee.

Mr. Friedman, I know that in Michigan the unemployment rate is extremely high and that until the automobile industry picks up there probably is not much indication on the horizon that many of those who are unemployed auto workers will go back to work.

However, as you are aware, the United Auto Workers also cover aerospace workers and we keep reading because the B–1 bomber is going back on stream that some of those people may be transferred over to participate in those contracts. Can you give us any indication of your research of how many may be moving over into that project?

Mr. FRIEDMAN. I do not have that information at my fingertips, but I would be pleased to submit such data for the record or to you directly.

[The following was subsequently received:]

NEWS FROM THE UAW

Public Relations and Publications Dept.
8000 E. Jefferson Ave.
Detroit, Mich. 48214
DON STILLMAN Director
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INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

For Release: Immediate, Tuesday, March 23, 1982

UAW TO LAUNCH PILOT PROGRAM TO RETRAIN

AUTO WORKERS FOR JOBS IN AEROSPACE INDUSTRY

The UAW and Rockwell International Corp. will launch a new pilot program funded by a $300,000 grant from the U.S. Dept. of Labor to retrain laid off auto workers for jobs in the aerospace industry, UAW President Douglas Fraser and Secretary-Treasurer Raymond Majerus said today.

The new pilot program will retrain and relocate 400 laid off auto workers for jobs in Rockwell International Corporation's Aerospace division.

"It took our union nearly a year to put this pilot program in place," Majerus, director of the UAW's Aerospace Dept., said. "Now that we have it, we expect it to serve as the beginning of a much larger effort to put our members back to work.

"The intent of our efforts here," Majerus said, "is to develop a program that will make possible decent paying jobs for laid off workers, some of whom have been unemployed for many months, have exhausted their benefit programs and now face extremely difficult times."

"As this program proves successful, we hope to see a broader effort on the part of our government to more efficiently utilize our nation's most precious resource -- its workers," he said.

While he welcomed the program, Majerus said it was long overdue.

"Our members have transferrable skills and would be glad to be put to work where they are needed. What they need now is the chance," Majerus said. "This program will begin to give that chance to 400 workers now, hopefully many more later."

(more)

Workers who meet the basic skill qualifications of the program will be recruited to enter the retraining program. The method of selecting qualified workers will be worked out by the UAW and the Department of Labor in the near future.

After successful completion of the program, the 400 auto workers — 200 from South-East Michigan and 200 from Ohio — will be eligible for jobs working on the new long range combat aircraft (LRCA). Rockwell is expected to hire up to 25,000 workers for work on the LRCA at their various locations around the country.

Last week, the UAW announced an agreement with Rockwell under which laid off auto workers from Rockwell's automotive division will receive preferential hiring rights at Rockwell's aerospace plant in Columbus, Ohio.

The UAW now represents more than 70,000 workers in the aerospace industry at such aircraft companies as McDonnell Douglas, Boeing-Vertol, Fairchild, Martin Marietta and Rockwell.

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Mr. ROUSSELOT. That would be helpful because, of course, we are told a lot of times that defense contracts do not mean much in the way of employment. Actually some of us do recognize that the B–1 bomber does employ a lot of people, including UAW workers, and I just wondered how many we might expect will be able to move as auto workers to the potential of working on the B–1 bomber.

We read a lot of articles in California, Arizona, Texas, Florida that some of the auto workers who have been receiving unemployment compensation and other so-called benefits have been able to move to those parts of the Sun Belt like California, Arizona, Texas, and are finding part-time jobs so that even though they are still receiving unemployment compensation, they have been able to pick up extra money.

Have you tracked many of your workers to find out how many are actually doing that?

Mr. FRIEDMAN. How many are actually leaving the State?

Mr. ROUSSELOT. Leaving the State, going to the Sun Belt, going to Phoenix, Los Angeles, Texas, Houston. We keep reading those articles. They do interviews with people who say: I was an automobile worker in Detroit. I have now come to Phoenix, I have now come to Houston, I have now come to Los Angeles, San Diego, and we are able to find part-time work here.

Do you know how many of your workers have done that?

Mr. FRIEDMAN. I have not seen specific figures, but I know it would be a very tiny proportion of the total. Most of our members who are unemployed in places like Michigan are homeowners. They have worked in the automobile industry much of their adult lives. It is pretty difficult for them to pick up stakes and move elsewhere.

They have an awful lot invested right where they are and if you have tried to sell a house in Michigan lately you would understand why it is not too easy for them to move.

Mr. ROUSSELOT. No. I have not tried to sell a house in Michigan. I am sure it is extremely difficult.

Mr. FRIEDMAN. It is virtually impossible, in fact.

Mr. ROUSSELOT. High interest rates do not help any.

Mr. FRIEDMAN. They certainly do not.

If I might just go back to your earlier question regarding the potential for redeploying auto workers into defense and aerospace industries, I do remember the figure of about 30,000 jobs with respect to the B–1. That has been the projected impact of the B–1. And if you look at job loss as a result of the auto crisis, our estimates are that roughly 1 million manufacturing jobs have been lost since 1978, due to the incredible contraction in production in that industry.

Mr. ROUSSELOT. You mean in all manufacturing support, et cetera, a million jobs roughly?

Mr. FRIEDMAN. Yes, sir. We have just at the big five alone—that is, the assembly companies, General Motors, Ford, Chrysler, VW, and American Motors—some 250,000 workers on indefinite layoff. And if you use a conservative multiplier which the BLS puts at 2.3 supplier jobs per assembly company job—that includes the whole chain of suppliers, to which Mr. Powderly referred in his statement, the steel workers, the rubber workers and everyone else who

is in feeder jobs that supply those assembly companies—if you use that 2.3 multiplier times the 250,000 and add it to the 250,000, that right there pushes you up in the neighborhood of 800,000. Adding related white collar job loss brings the total to around 1 million.

And that, we feel, is a conservative estimate of job loss related to the auto crisis. So it is pretty hard to see how even a program the size of the B–1, even if every worker hired was a transferred auto workers, how that could offset the absolute catastrophe we are facing now.

Mr. ROUSSELOT. I do not think anybody expected that all workers would be picked up by the B–1 bomber. I do not think that was the purpose of my question. I was just interested to know because we see an awful lot of advertisement of workers to go to work with various skills for the B–1 bomber, and I just wondered how many of those potentially could move as auto workers into that area.

Regarding the new negotiated contracts with the UAW with both Ford and General Motors, I notice there were provisions as they related to California that certain of the workers will be for two of those plants out there that were to have been shut down, that there was some kind of a guarantee, a continuation salary for a year negotiated in the contract.

Mr. FRIEDMAN. The provisions of the new agreement are detailed and complex. At the risk of oversimplifying, I think you are referring to the new guaranteed income stream program that we negotiated.

Mr. ROUSSELOT. Right.

Mr. FRIEDMAN. For those workers who are eligible, which in the case of those two plants would be workers with 10 or more years seniority on or after March 1, they will be eligible for a benefit which replaces 50 percent of their wage at the time that they lost their job, until they retire. However, they must take any job which the company finds for them during that period or else they lose eligibility.

Mr. ROUSSELOT. And that might mean moving, so that is a choice they have to make.

Mr. FRIEDMAN. That is right. "G.I.S." is an innovative, new collective bargaining breakthrough and we are very proud of it. In the long run we see it as an extremely significant program which will help a number of high seniority workers. However, it is not in itself a solution to the industry's unemployment crises.

Mr. ROUSSELOT. Those are the higher salaried workers, highly skilled people?

Mr. FRIEDMAN. No. It has nothing to do with skill level.

Mr. ROUSSELOT. Strictly seniority.

Mr. FRIEDMAN. Yes.

Mr. ROUSSELOT. Seniority pays off in the UAW.

Mr. FRIEDMAN. I understand it does in Congress, too.

Mr. ROUSSELOT. Not always. Well, thank you all for being here to participate.

Mr. Friedman, do you see the ability of the automobile industry in this country to become more competitive with our overseas producers in the near future?

Mr. FRIEDMAN. The critical unknown is the nature of the public policies we are going to see, in particular the trade and industrial

policies, in coming years. Without local content legislation H.R. 5133 which the UAW advocates, I have serious doubt about the long-term survival of the domestic industry.

I think it is at least an open question, and given the magnitude of the hemorrhage of employment, given the incredible depletion of the industry's financial resources and other factors I could cite for you, there is great and serious reason to be concerned about the future outlook for the U.S. automobile industry.

Mr. ROUSSELOT. Though it does not relate to this subcommittee, it certainly relates to our Trade Subcommittee. We have quite a few bills that have been put in the hopper here that would require that countries like Japan, West Germany and others afford us the same reduction of non-tariff barriers that we have afforded many of those countries.

Do you see that as essential in our ability to compete in selling overseas?

Mr. FRIEDMAN. I think we have a very serious international trade problem with Japan. In a nutshell, they have established a one-sided, unfair trade relationship with us which we as a nation have done very little to prevent. The reciprocity legislation to which you are referring has some potential for redressing that problem, but I would view it as having, on balance, a relatively limited potential and it would not solve the kind of grave crises that we are seeing in our basic industries—auto, steel, rubber and the like—which require a much more targeted approach.

Mr. ROUSSELOT. Thank you, gentlemen.

Chairman FORD. Mr. Matsui?

Mr. MATSUI. No, thank you.

Chairman FORD. The Chair would like to thank all three of you for appearing before the committee today and I would like to say that I do recognize the problem of unemployment, and I am sure that many of the members of this committee understand and realize that there is a severe problem out there.

That means that we will have to do something from the subcommittee as well as the full Committee on Ways and Means and I would hope that we would in the very near future move to look at some of the bills, to mark up some of the legislation and try to respond to some of the unemployment problems of this country through extended benefits.

I know that that is not a solution to the problem. We need jobs in this country. But at the same time we must make some provisions for those who are unemployed to continue to pay those house notes and utility bills and buy food to provide for their families. So, I would like to thank all three of you for testifying before the committee today. Thank you very much.

The Chair will now recognize Reverend McDonald, the chairman of the Public Assistance Coalition and the Georgia Poverty Rights Organization; Mr. James Martin, counsel for the Georgia Poverty Rights Organization; and Ms. Margie Brown, executive director of the Christians Against Hunger in Georgia.

The Chair will recognize Reverend McDonald.

STATEMENT OF REV. TIMOTHY McDONALD, CHAIRMAN, GEORGIA PUBLIC ASSISTANCE COALITION

Mr. McDONALD. Chairman Ford and other members of the committee, we would like to express our appreciation for your at least even having such a hearing to invite persons from all over the country to come and express concerns that we know are vital to the survival of our Nation.

I am Rev. Timothy McDonald. I am the assistant pastor of the Ebenezer Baptist Church of Atlanta, Ga, once pastored by Dr. Martin Luther King, Jr. I am also Chairman of the Statewide Georgia Public Assistance Coalition, which is composed of more than 20 Georgia organizations. The coalition is associated with the Emmaus House, an Episcopal parish in the inner city of Atlanta, Ga.

Our group has worked for the last 5 years to improve the plight of poor people in Georgia who receive aid to families with dependent children benefits. I am here to testify about the impact on poor Georgians and other States with low AFDC benefit levels of the recent changes in the program and the additional changes that have been proposed.

There are more than 200,000 people in Georgia who received AFDC benefits. Three-fourth, 75 percent, of these are innocent children. The callous changes in the AFDC program that were enacted last year and that are proposed by the Reagan administration will cause suffering for these Georgians for whom there is no safety net.

In the summer of 1979 we testified before this committee and explained to the members of the committee that the AFDC program in Georgia and other Southern States is totally inadequate and argued for a national minimum benefit. Given the absence of a national minimum benefit, however, the changes that have been enacted this year and that are proposed are devastating to Georgians.

Already more than 12,000 innocent children have been removed from the AFDC rolls. This means that they are not eligible for medicaid. Many of these children will not receive the very basic and minimum medical assistance such as eye care, tooth repair, and hearing examinations. Are the penalties we inflict upon innocent children justification for an insensitive budgetary process? In reality, the safety net concept for AFDC recipients in low benefit States does not consist of the basic AFDC benefit.

In Georgia this is a maximum of $194 for a family of three and is less than 50 percent of what the State of Georgia has determined it takes for that family to survive. In order to survive in a low benefit State the AFDC family must supplement the AFDC grant with a marginal job, by living with a relative, by using other benefits to which the family is entitled or by some other method. In fact, the major thing that has helped offset the total inadequacy of AFDC benefits has been other Federal programs, in particular food stamps, medicaid, and low income energy assistance.

I would like to share with you an example of a family that ran into this problem, a mother with three children who decided she found the man she loved and wanted to get married. This was before the stepfather's income was counted for eligibility. The

mother marries. The three children are still eligible to receive AFDC.

The stepfather's income then becomes eligible to be included for eligibility. They found themselves, the father working at a minimum-paying job, AFDC benefits totally eliminated, housing subsidies totally eliminated, paying maximum rent, food stamps eliminated, medicaid eliminated. The family is trying to survive. The children are not having enough. Both mother and father decide that in the best interest of the family they should divorce and they are now in the process of divorcing.

If we are about the business of creating a strong nuclear family unit, why would we design and implement a program that creates hardships upon struggling families who are trying to make it easy for their family to survive? Until the level of AFDC benefits is adequate, any change in the AFDC program which reduces the amount of income that can be earned by the AFDC families or counts as income other assistance will cause an extreme hardship on AFDC recipients in Georgia and other low benefit States.

For this reason, the Public Assistance Coalition supports H.R. 5791, which has been introduced by Representative Ford, because it restores some of the work incentives in the AFDC program and opposes any action to further penalize through eligibility changes the poor in Georgia and other low benefit States for the failure of the Congress to enact a humane minimum AFDC benefit for the people of our State.

Chairman FORD. Mr. Martin.

STATEMENT OF JAMES F. MARTIN, COUNSEL, GEORGIA POVERTY RIGHTS ORGANIZATION

Mr. MARTIN. Chairman Ford, members of the committee, I am here representing Frances Pauley, who is the director of the Georgia Poverty Rights Organization. I am the counsel for that organization. She is a woman who has been active in civil rights and human rights in the South for 30 years, and I am sorry you do not have the benefit of hearing from her.

The Poverty Rights Organization is a statewide organization operating under the auspices of the Atlanta Diocese of the Episcopal Church. I support the comments that have already been raised by Reverend McDonald and those to be made by Ms. Brown. My statement concerns the proposed consolidation of the low income home energy and emergency assistance programs.

Energy assistance has helped poor people in Georgia this winter, but it was totally inadequate to meet the need. In fact, our State estimates that only 21 percent of that need was met. There were 422,000 households in Georgia in need of help this winter. Georgia was only able, with the funds that were provided by the Federal Government, to assist 90,000 families, and that was less than what we had provided last year in 1981.

Lack of funds obviously is a problem that the Congress is dealing with. There are three additional elements in the low income energy assistance program, though, that combine to cause the result in Georgia of having more Federal dollars this year with less money

paid out in benefits, and my statement deals with those three areas.

The first factor is that under the low income energy assistance block grant a lot of discretion was given to the States. This is how Georgia used that discretion, 35 percent of the money that was available for benefits, low income energy assistance benefits, this winter was used for other purposes in Georgia. Of the money 10 percent was transferred to desperately needed other human services programs and particularly Georgia's maternal and infant health program and the social services programs.

Also 15 percent was transferred for weatherization. That is an important, long-range objective, but the reality is that that fifteen percent came out of money that would have been paid for benefits this year, and 10 percent was used for administration. That is the problem we urge the Congress to deal with—the low income energy block grant funds. Our experience in Georgia was that these funds were used as additional revenue-sharing money to cover some of the funds that were lost from other cuts in Federal benefit programs.

The second factor was the hearings that were held on all the block grants in Georgia. Our legislative hearing was attended by two members of the Georgia General Assembly, which assembly, as you know, is one of the largest general assemblies in the South, in the Nation. There are 180 members in the house and 56 members in the senate. Two members showed up. The hearing was held at 2 on Friday afternoon. The announcements of the hearings appeared in the two Atlanta papers, one in the obituary section and one in the sports section.

A number of comments were made during the hearing about maybe the appropriateness of placing the block grant hearings in the obituary column because of the cutbacks in Federal funds, but the fact of the matter is that adequate notice was not given to the people most affected by these cuts.

Third is the fact that in Georgia, which is a low AFDC benefit State, when you count the low income energy assistance benefits as part of the AFDC resources, the reality is that the need for energy assistance is not being met. The State of Georgia standard of need for AFDC allocates $44 for energy as part of the AFDC grant. The State then elects to pay 50 percent of that need in benefits. In other words, we pay $22 for energy assistance in Georgia.

If you counted the low income energy assistance funds that that family was entitled to, there would be no way to pay the energy bill that many of the low income families in Georgia are experiencing. Thank you.

Chairman FORD. Thank you, Mr. Martin. Ms. Brown.

STATEMENT OF MARGIE BROWN, EXECUTIVE DIRECTOR, CHRISTIANS AGAINST HUNGER IN GEORGIA

Ms. BROWN. Thank you, Chairman Ford, and members of the committee. Thank you for the opportunity of appearing before you today.

I am the director of the Christians Against Hunger in Georgia, which is a church-supported, statewide organization. My testimony

today will focus on the aid to families with dependent children program, the impact of the program changes instituted since the Omnibus Reconciliation Act of 1981 on participants in our State and, more specifically, on the community work experience program more commonly referred to as workfare.

I must initially state that the AFDC program and the changes and the impact on families is very intricately connected with changes in other programs. For example, when a working parent receiving AFDC benefits loses his or her benefits as a result of any program change, that parent and family faces the possible loss of medicaid benefits to meet the critical health needs of the family.

Another critical factor that I believe we must keep in mind during this dicussion is the cumulative impact of the cuts on families. I think one group which stated this rather well was in "The Significance of the Administration's New Budget Proposals" by the Center on Budget and Policy Priorities, which made the observation that what makes these cuts even more devastating is that many of these cuts in different programs hit the same families. The hardest hit are the working poor.

Many of these families are hit at the same time with cuts in AFDC and food stamps, increased medical charges due to medicaid cuts, and a reduction in education or child care services for their children. At the same time, their rents or heating bills may be rising due to cuts in energy assistance and housing programs. Some families may be faced with choices between eating three decent meals a day, paying their rent, or paying the utility bills.

I think I would add as an amendment to this and state that there are already some families in the State of Georgia who are facing those decisions.

While there are a number of program changes in AFDC, I am going to concentrate just on those that have the most severe impact on families in Georgia.

The first change is that which limits AFDC eligibility of those families whose incomes are 150 percent of the State standard of need. Now without going into a detailed explanation of this, let me briefly say that again due to Georgia's low standard of need, many families are hurt as a result of this cut, many of those being working families.

As a result of the recent 1982 Georgia legislative session, 53 percent of this current standard that we have in Georgia, or in factual figures slightly over 100 percent of 1969 cost of living figures will now be paid to families in Georgia. This translates into a family of three without any other source of income being able to receive a maximum of $194 per month. While this change in the standard benefits some families it is still forcing many families who were working off the rolls. Many of these parents were barely making ends meet with the job that they were having as well as a small AFDC grant and I think the message is that we are punishing those AFDC recipients who are working.

Also, being from a Southern State, I think I also need to make one more remark about this. I think sometimes the assumption of policymakers seems to be that the administration of programs such as AFDC at the state level has become more responsive to the needs of low income people. The facts show this is incorrect and in

the last 10 years AFDC benefits have fallen 24 percent in constant dollars, and in the South, despite economic growth, the gap between benefits in the South and the North has widened.

In Georgia, a parent and two children with no other income can receive a total of $1,328 a year in AFDC benefits. This fact shows again the need for and importance of national eligibility standards in the AFDC program.

One more change that I just wanted to mention briefly is the earned income disregard, which is the amount of earned income which was disregarded in determining monthly AFDC benefits, and the application of this disregard only during the first four consecutive months in which a program recipient has earnings in excess of the standard work expense. This has also been another program change that again has been hurting the working AFDC recipients.

Let us just take one personal look at what this has done to one family in Georgia. Ms. Scott works for low wages at a factory. She has two children and one of the children requires at least two more operations to correct a health problem. The family has been getting a small AFDC check that helps with rent and utilities and gets medicaid and food stamps. She received notice in October 1981 that her food stamps would be reduced and that AFDC would be cut from $80 to $20. In January of 1982 she received another notice. This said that her AFDC would be cut off altogether and she would therefore lose medicaid. If the child does not get surgery he will be permanently disabled. That is an example of what we are beginning to see on the State level.

In addition to this example, I would also mention that my office is in one of the churches in the downtown Atlanta area which has a small social services system within the church. We are trying to do something about some of the people who are seeking assistance. They have already begun to see an increase in the number of people who are requesting assistance.

For example, in the church there was recorded in October 1981 200 people coming in for assistance. In November the number moved to 254, and in December of last year, 381 persons, so that we are beginning to see the effects of some of the cuts.

At this time I would direct your attention to the community work experience program, which is commonly referred to as "workfare". While 210,400 persons are currently unemployed in our State, according to the Bureau of Labor Statistics, and 13,140 AFDC recipients have lost their benefits since October of 1981, the Georgia Legislature passed a pilot community work experience program.

Christians Against Hunger in Georgia agrees that many AFDC recipients do need job skills, but the key need is meaningful employment, and this issue is essentially ignored in workfare. I think overall this is proven in the States, that it has operated to be a punitive kind of program which does not deal with the issue of unemployment.

I think that two questions need to be raised at this time. One is if workfare has been created to, as Secretary Richard Schweiker has indicated in public testimony, encourage recipient identification with the labor market, to provide recipients with a work history and develop the discipline necessary for accepting employment,

why are some of the administration's proposals giving the other message by punishing recipients who are working?

Speaking to the proposals regarding the AFDC program, in Fulton County, which is one of the counties in Georgia in which Atlanta is located, they reported in March 1982 that because a majority of the regulation changes are cases involving earned income, the employed segment of our client population has been affected the most.

The second point I would make is that if job placements which will be part of the workfare program currently exist, why aren't these job placements offered as salaried positions with adequate wages and therefore as an alternative to the workfare program?

I want to mention two factors that will indicate some of the previous experience with the workfare program. In a recent study that was conducted in 1976 in California entitled "Third Year and Final Report on the Community Work Experience Program", their conclusions were that the community work experience program as designed and implemented in California did not prove to be administratively feasible and practical.

According to one other study by Barry Friedman in "An Evaluation of the Massachusetts Work Experience Program", they concluded that there was no significant benefit from experience in terms of increased work or reduced welfare costs and the work experience treatment was not cost effective.

One other related issue is the fact that the Congressional Budget Office has estimated that to institute a nationally mandated workfare program there would be a 50-percent increase in administrative costs on the state and local levels.

One final point in terms of workfare is that in Georgia, we have 72 percent of those who are participating in the AFDC program being children who cannot participate in a program such as this.

I would like to end with giving some recommendations as a result of some of the observations we have made about workfare, and in response to the increasing needs that we are beginning to see in the State.

One is that we would support passage of H.R. 5971, which would support the elimination of the 150 percent cap on eligibility and the 4-month limitation on earned income disregards.

Second, there needs to be something to address the increasing needs that we are seeing in the State as far as emergency assistance and general assistance for people who are not receiving services with any kind of a human service program any longer.

The third component is the development of a plan between the private and public sectors for job creation with the training and job placement component for AFDC recipients between 18 and 40, with the following provisions.

The first provision is the provision of a salaried position with full employment benefits and a guaranteed annual income for AFDC recipients. These positions could be in some of the following currently existing job categories: aiding the elderly and the sick; building and repairing local recreational facilities; providing child care; for paraprofessionals in the schools; running local recreation programs; improving school facilities; and so on.

The second provision would be for aid for recipients for going into business for themselves. Third, provision of the now vacant Comprehensive Employment Training Act job positions to AFDC recipients as salaried positions, as this would fulfill badly needed services on the State and local levels that we are already feeling because of the cutbacks in CETA. Lastly, provision of day care services for AFDC recipients who would need such services in order to work.

Thank you.

[The prepared statement follows:]

Statement of Margie Brown, Executive Director, Christians Against Hunger in Georgia

My testimony today will focus on the Aid to Families with Dependent Children program, the impact of the program changes resulting from the Omnibus Reconciliation Act of 1981 on participants of the AFDC program in Georgia, and more specifically, on the community work experience program more commonly referred to as "workfare".

I must initially state that this program, the changes and the impact on families is very intricately connected to changes in other programs. For example, when a working parent receiving AFDC benefits loses his or her benefits as a result of a program change, that parent and family faces the possible loss of Medicaid benefits to meet the critical health needs of the family. Another related factor that I believe we must keep in mind is the extent of the cumulative impact of changes on low-income people. As recently stated in a publication entitled The Significance of the Administration's New Budget Proposals by the Center on Budget and Policy Priorities:

> What makes these cuts even more devastating is that many of these cuts in different programs hit the same families. The hardest hit are the working poor . . . Many of these families are hit at the same time with cuts in AFDC and Food Stamps, increased medical charges due to Medicaid cuts, and a reduction in education or child care services for their children. At the same time, their rents or heating bills may be rising due to cuts in energy assistance and housing programs. Some families may be faced with choices between eating 3 decent meals a day, paying their rent, or paying the utility bills.

While there are several program changes that have been implemented concerning the AFDC program, I will refer to those changes which have had the most severe impact on families.

The first change is that which limits AFDC eligibility of those families whose incomes are 150% of a state's standard of need. Without going into a detailed explanation of this change, let me briefly say that due to Georgia's low Standard of Need from which benefits are derived, this had a severe effect on many families receiving AFDC. In October of 1981 when this change was to first be implemented, the Board of Human Resources did save benefits for many families by changing the Standard from simply 1969 cost of living figures to "190% of 1969 figures". As

a result of the 1982 Georgia Legislative Session, 53% of this current standard, or in actual figures, slightly over 100% of 1969 cost of living figures, will be paid to families. This translates into a family of 3 without any other income being able to receive $194.00 per month. While this change in the standard saved benefits for some families, it still forced many families with a working parent to lose benefits. Many of these parents were barely making ends meet with a minimal income from working and from an AFDC grant. In a sense, this punished those who were working.

Being a southern state, I think that we must look at this issue more closely. The assumption of policy makers seems to be that the administration of programs such as AFDC on the state level has become more responsive to the needs of low-income people. The facts show that this is incorrect. In the last 10 years, AFDC benefits have fallen 24% in constant dollars, and in the South, despite economic growth, the gap between benefits in the South and the North has widened. In Georgia, a parent and two children with no other income can receive a total of $1,328.00 a year in AFDC benefits. This fact shows the need for and importance of national eligiblity standards in the AFDC program.

A second change, "earned income disregard" (the amount of earned income which was disregarded in determining monthly AFDC benefits) and the application of this disregard only during the first 4 consecutive months in which a recipient has earnings in excess of the Standard work expense, has also had a severe impact on working AFDC recipients.

Let's take a personal look at how some of these changes are actually affecting AFDC families:

> Ms. Scott works for low wages at a factory. She has two children and one of the children requires at least two more operations to correct a health problem. The family has been getting a small AFDC check that helps with rent and utilities and gets Medicaid and Food Stamps. She received notice in October 1981 that her food stamps would be reduced and that AFDC would be cut from $80.00 to $20.00. In January of 1982 she received notice that her AFDC would be cut off and that she would therefore lose Medicaid. If the child does not get surgery soon he will be permanently disabled.

In addition to this practical example, I would point out one other consideration which is key to this discussion. That is the growing

number of people who are seeking assistance with food, rent, medical care and other needs. For example, in the church in which my office is located, there has been recorded an increase in those requesting assistance. In October of 1981, 218 people were served; in November of 1981, 254; in December of 1981, 381.

At this time I would direct your attention to the community work experience program commonly referred to as "workfare". While 210,400 persons are currently unemployed in Georgia according to the Bureau of Labor Statistics and 13,140 AFDC recipients have lost their benefits since October of 1981 as a result of the Omnibus Reconciliation Act, many of these individuals being working ARDC recipients, the Georgia Legislature passed a pilot community work experience program. Christians Against Hunger in GA agrees that many AFDC recipients need job skills--but the key need is meaningful employment with adequate wages and benefits, and this issue is ignored in workfare. It has proven to be a punitive program that does not give people an opportunity to get into the workforce.

Workfare is a program in which the state would require AFDC recipients to take jobs in exchange for their AFDC grants. One method of doing this is to divide the grant by the minimum wage to determine the number of hours to be worked per month. For example, Mrs. Smith gets a grant in the sum of $194.00 each month. She must therefore work approximately 58 hours per mohth to continue receiving this grant for herself and her children (194.00 divided by $3,35 = 57.9 hours).

Two questions need to be raised at this time: One, if workfare has been created to, according to public testimony by Health and Human Services Secretary Richard Schweiker, "encourage recipient identification with the labor market, provide recipients with a work history and develop the discipline necessary for accepting employment in the regular economy," why are

so many working AFDC parents being negatively impacted by the new regulations of the administration? Speaking to the proposals regarding the AFDC program, the Fulton County Department of Family and Children Services in Georgia reported that in March of 1982 that "because a majority of the regulation changes are cases involving earned income, the employed segment of our client population has been affected the most".

Secondly, if the "job placements" which will be a part of the workfare program currently exist, why aren't these "job placements" offered as salaried positions with adequate wages and therefore as an alternative to workfare?

In 1962 the U. S. Department of Health, Education and Welfare in a publication entitled Work Relief: A current Look concluded the following:

1) As currently administered, work relief by itself is not significantly reducing the assistance rolls. In the bureau's view, it can do so only if the economy produces additional regular jobs to which people with constructive work relief experience can be referred.

2) Work relief costs more in public funds than does an assistance program without work relief. The better programs all showed evidence of considerable expenditure for administration and supervision, and some increase in assistance payments to cover work experiences.

A more recent study conducted in 1976, the Third Year and Final Report on the Community Work Experience Program prepared by the State of California Employment Development Department, concluded that the "community work experience program as designed and implemented in California did not prove to be administratively feasible and practical".

According to Barry Friedman in "An Evaluation of the Massachusetts Work Experience Program" prepared in 1980, there were "no significant benefits from experience in terms of increased work or reduced welfare costs," and "the work experience treatment was not cost effective". The Congressional Budget Office estimates that a nationally-mandated workfare program would mean a 50% increase in state and local administrative costs.

One final note is the very basic fact that in Georgia 72% of those participating in the AFDC program are children, certainly individuals who cannot even participate in the community work experience program.

Based on the growing numbers of persons in need of assistance and on the preliminary observation of the workfare program as operated in other states, Christians Against Hunger in Georgia recommends the following:

1) An increase in the appropriation of General Assistance or Emergency Assistance funds so that more of those in crisis and emergency situations can be helped.

2) The development of a plan between the private and public sectors for job creation with a training and job placement component for AFDC recipients between the ages of 18 and 40 with the following provisions:

   a) Provision of a salaried position with full employment benefits and a guaranteed annual income for AFDC recipients. These positions could be in some of the following currently existing job categories:

      Aiding the elderly and the sick; building and repairing local recreational facilities; providing child care; for para-professionals in the schools; running local recreation programs; improving school facilities; monitoring environmental quality; weatherizing homes to save energy; providing facilities for the handicapped; aiding in waste treatment and recycling.

   b) Provision of aid to AFDC recipients in going into business for themselves in areas such as painting, lawnservice, etc.

   c) Provision of the now vacant Comprehensive Employment Training Act job positions to AFDC recipients as salaried positions as this would fulfill badly needed services on local, state and federal levels.

   d) Provision of day care services for AFDC recipients who would need such services in order to work.

Chairman FORD. Thank you, Ms. Brown, Mr. Martin, Reverend McDonald. I thank all three of you on this panel for appearing before the committee today.

We know that in the Budget Reconciliation Act of 1981 there were severe cuts overall that affected many of the social programs. I am sure that these budget cuts have had an impact in many areas of the country, like Fulton County or Atlanta, Ga., most central cities throughout this country and even beyond the central cities.

I say to you that it is people like you testifying before this subcommittee and writing and talking with those elected officials from your State that we will make the difference in efforts to restore some of the funding in social programs back to a level that is responsive to those human needs, in Fulton County and throughout this country. Again, I would like to personally thank the three of you for testifying before the committee today.

Mr. Rousselot.

Mr. ROUSSELOT. Thank you, Mr. Chairman. I, too, wish to express my appreciation to the three of you for being here and participating. I notice, Mr. McDonald, in your statement you list these several organizations from Georgia that you said are the Georgia Public Assistance Coalition and you listed the organizations at the bottom of your testimony and I notice all three of the groups you represent are in that coalition.

So that is interesting. I did not count all of them, but it is a substantial number—20 organizations. Are all of these groups involved in helping provide funding for public assistance? You said you are representative groups.

Mr. MCDONALD. Yes. This group is primarily a legislative lobbying group.

Mr. ROUSSELOT. Legislative lobbying.

Mr. MCDONALD. Yes, that primarily concentrates on the activities of the general assembly and the implementation of those programs through the Department of Human Resources and they are involved on a year-round basis.

Mr. ROUSSELOT. In your State capital——

Mr. MCDONALD. Primarily in the State capital but throughout local municipalities.

Mr. ROUSSELOT. I guess that was my next question. You also work to help people understand those programs of public assistance that emanate from a local government for the State. Is that correct?

Mr. MCDONALD. One of our primary components is educating the public.

Mr. ROUSSELOT. In your State are the AFDC programs administered by the State or are they done through the local governments—city and county governments?

Mr. MCDONALD. They are administered by the State through the local department of DFACS, but they are administered by the State department of human resources that administers the program.

Mr. ROUSSELOT. Now do these organizations, these 20, in lobbying at the State level, the county and the city level, advocate changes in law that would be helpful to the recipients?

Mr. MCDONALD. Most definitely.

Mr. ROUSSELOT. Do you have recipient participants in your organizations?

Mr. MCDONALD. Yes.

Mr. ROUSSELOT. Do they pay dues?

Mr. MCDONALD. We do not have any dues.

Mr. ROUSSELOT. Are they all donated funds?

Mr. MCDONALD. All donated funds.

Mr. ROUSSELOT. Are they all private funds or do you have any Federal funds?

Mr. MCDONALD. No Federal funds—all private funding.

Mr. ROUSSELOT. It is all private funds?

Mr. MCDONALD. Yes.

Mr. ROUSSELOT. Do any of your funds go to help people in need who are on public assistance but who maybe do not able to have an adequate income?

Mr. MCDONALD. Yes.

Mr. ROUSSELOT. Provide food?

Mr. MCDONALD. A number of our organizations, Ebenezer Baptist Church being one, distribute in excess of $20,000 a year to help people with emergency assistance.

Mr. ROUSSELOT. To various——

Mr. MCDONALD. To various individuals.

Mr. ROUSSELOT. Whoever you feel is qualified for help. I see. You do not happen to know what the total amount is for all of these organizations?

Mr. MCDONALD. No, sir.

Mr. ROUSSELOT. Do you know?

Mr. MARTIN. I could give you an example. For example, the Episcopal Church, which is obviously very heavily involved in this activity, has a campaign across the country, but in Georgia the Georgia segment is designed to raise $1 million for emergency assistance needs.

Mr. ROUSSELOT. To people in Georgia who are in need?

Mr. MARTIN. Yes, sir.

Mr. ROUSSELOT. Ms. Brown, does your organization do that too? I notice you represent Christians Against Hunger in Georgia.

Ms. BROWN. Our time is spent in a more direct way, not direct service but through providing the legislative advocacy. But what I can say is some of the members who are, say, on my steering committee and my board, for example, are with the church that I am located in in that office that do have a social service system within their church in terms of providing food assistance and rent where people within the congregation have put in money for this specific purpose.

Mr. ROUSSELOT. I see, help for rent or help for food.

Ms. BROWN. Well, anything really. When somebody comes in—the other thing is they provide assistance for rent, sometimes transportation to get to the doctor, sometimes for prescriptions—things like that. What they are finding out is that they are having to turn people away.

Mr. ROUSSELOT. You do not know how many people all of your 20 organizations serve, do you? I think this is a magnificent example of a voluntary effort at the local level to help people. I just wonder,

since you are a coalition, if you knew how many people you are assisting.

Mr. McDONALD. We would estimate very conservatively that it would be in the neighborhood of 100,000.

Mr. ROUSSELOT. Statewide.

Mr. McDONALD. Statewide.

Mr. ROUSSELOT. That is very noble.

Mr. McDonald, I was interested in the case you gave where you mentioned there was an AFDC mother who had three children and then when she became married—what was her new husband's income?

Mr. McDONALD. Well, he was not working previously. He got a job at the minimum wage.

Mr. ROUSSELOT. Well, how much did he earn, say, a month?

Mr. McDONALD. At the minimum wage, working 40 hours a week, $3.40 an hour, $120. Maybe, after all expenses, maybe $450 a month.

Mr. ROUSSELOT. $450 a month after expenses. You mean his net?

Mr. McDONALD. Yes.

Mr. ROUSSELOT. So your thought is that we did not legislate too carefully because when this AFDC mother—she did not go to work, I assume.

Mr. McDONALD. She was not working.

Mr. ROUSSELOT. So you are saying that the $450 that he is earning with the new three children, or whatever his income is, is not adequate? What would you do?

Mr. McDONALD. Previously the program had been set up for a stepfather's income to not be counted as eligibility requirements for AFDC. As it was implemented on October 1, the income is now counted, which means that the family was no longer eligible for food stamps, no longer eligible to receive low-income housing, no longer eligible to receive medicaid. On $450 a month and not having any of the other programs available to that family, it is virtually impossible for that family to survive.

I also expressed that in light of this fact this family has recognized that it was better off to be separated and have filed for divorce and divorce proceedings are right now in process. Once those proceedings are completed, the mother and the three children do anticipate going back on AFDC, receiving again their food stamps, going back to enter their low-income housing and being eligible again for medicaid.

What the legislation has done, because it now includes the stepfather's income, is put back onto the State, the taxpayer, the burden of taking care of those families in all of those areas, and I think that works basically against itself.

Mr. ROUSSELOT. So the divorce was generated strictly on the basis of what kind of payment?

Mr. McDONALD. Economics.

Mr. ROUSSELOT. Economics alone. I mean, they are no longer receiving the AFDC payments. It does not sound like a very sound marriage, but maybe I do not understand.

Mr. MARTIN. Congressman Rousselot, there may be a more fair way of stating it. Not in this particular case, but generally speak-

ing, the economic problem is always a marital problem, especially in the low-income families.

Mr. ROUSSELOT. I have heard that.

Mr. MARTIN. And when it becomes economically impossible for that family to exist, then necessarily the marital tensions also increase. I would not say that the only reason the family might break up would be because of denial of AFDC benefits, but in this——

Mr. ROUSSELOT. Well, that certainly would seem to be the instance.

Mr. MARTIN. Well, that was this one case. I am talking generally. But when you have terrible economic needs additional strains are placed on the family. You see child abuse. You see other social problems that occur. They just stem from the economic deprivation of that couple. What is related and what is the cause is really hard to pinpoint.

Mr. ROUSSELOT. Are you familiar with this particular case?

Mr. MARTIN. Yes; I am familiar with this particular case.

Mr. ROUSSELOT. So what you are saying is it is more profitable for her to go back and be separated, get AFDC allowances, food stamps, and all the rest. There is an incentive to go back in to more welfare.

Mr. MCDONALD. I would say the work incentive has basically been taken away.

Mr. ROUSSELOT. The work incentive of the husband. I assume he will go on working.

Mr. MCDONALD. I would certainly hope so.

Mr. ROUSSELOT. Well, anyway, thank you for your example. It is an interesting one. I see there is a tremendous incentive to go back into a welfare program—more profitable than to be married.

Chairman FORD. Once again, Mr. Martin, Ms. Brown, Reverend McDonald, I want to thank you for being here.

The committee's witnesses are Mr. James M. Hacking, the assistant legislative counsel of the National Retired Teachers Association and American Association of Retired Persons; Mr. John Harris, National Council of SSA Field Operations Locals; and Mr. Mike Glancy, the National Organization of Society Security Claimants Representatives.

The Chair will recognize you in that order.

STATEMENT OF JAMES M. HACKING, ASSISTANT LEGISLATIVE COUNSEL, NATIONAL RETIRED TEACHERS ASSOCIATION AND AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. HACKING. Thank you very much, Mr. Chairman. I am Jim Hacking, the assistant legislative counsel for the National Retired Teachers Association and the American Association of Retired Persons. As I am sure you are aware these organizations have a very substantial membership. It is now well in excess of 13 million persons aged 55 or older.

With your permission, I would like to submit the Associations' statement for the record of the hearing and proceed to summarize.

Chairman FORD. Thank you, it will be made part of the record.

Mr. HACKING. The administration has placed before the subcommittee an assortment of what it calls spending reforms for Federal public assistance programs and justified them mainly on the grounds that the budget deficit has to be reduced. Well, certainly our organizations agree that the deficits must be reduced and the budget ultimately brought into balance for the economic well-being of the Nation.

However, we do not believe that deficit reduction should be achieved by chipping away at the extremely modest benefit protections provided some of the poorest segments of the population. Rather than decreasing vital public assistance programs like SSI or the low income energy assistance program, we urge the Congress to look primarly to the revenue side of the budget for a solution to the projected deficits.

We testified before the full committee detailing a considerable number of revenue raising options which would narrow the deficit considerably. In the SSI area the administration is advancing several major proposals, all of which we are forced to oppose. I would like to highlight our objections to three of those.

The first is the elimination of the $20 disregard. The administration argues that the $20 disregard is an unfair advantage to those persons with outside income, thereby disadvantaging those who are wholly reliant on SSI. This is an extremely misleading rationale. For most persons with outside income, especially the aged, social security represents the outside unearned income that is disregarded. What the administration has tried to describe as an equitable reform, really amounts to a $20 per month across-the-board reduction in SSI payment standards—a cut that will deepen in the poverty already experienced by the SSI population.

The administration is proposing to extend the required disability prognosis to 2 years and also to require the use of strictly medical factors in determining disability rather than nonmedical factors such as advanced age, lack of education, and work experience. This latter proposal, we think, would harshly impact on the disabled worker, since this is the group that is most likely to utilize nonmedical factors in seeking disability status.

We would point out that in 1979 60 percent of the disabled SSI recipients were age 50 or over and 35 percent were age 60 or over. The underlying intent of the administration's proposal is to deny eligibility to those persons they consider to be not sufficiently disabled to prevent them from working. This, we think, is a specious argument. What so-called marginally disabled individual would resort to a severely means tested program like SSI unless they had no other choice?

In addition, altering the SSI disability determination rules would administratively put SSI out of sync with the rules used under the social security disability program. Not only would it make potential SSI recipients a class that is irrationally discriminated against, the program administration surrounding the disability determination and claims process will be made unnecessarily complex.

The third proposal is to eliminate the mandatory passthrough provision. As I am sure you recall, prior to the enactment of the mandatory passthrough provision in 1977, it was the practice of some States to decrease their SSI supplements when the Federal

SSI cost of living payment increases were provided. Thus, the States benefited rather than the program beneficiaries.

Repeal of the mandatory passthrough provision would be a clear signal to the States that they are free to resume their former practice. There was good reason to enact the mandatory passthrough in the first place. We think the mandatory passthrough provision is essential and should be retained.

The administration's proposals for the low income home energy assistance program are also ill-conceived. The proposal would reduce the program from its current spending level to $1.3 billion while merging it into the more broadly focused emergency assistance program. At the same time, the Department of Energy's all-weatherization program would be eliminated on the unlikely theory that its activities would be picked up under the 15-percent allowance for weatherization under the low energy home income assistance program. Thus, that program would be expected to do a great deal more with a great deal less in terms of resources.

Most objectionable to the association is the proposed drastic cut in funding. Even with appropriations set at the full funding level currently allowed, the low income energy assistance program is inadequately funded to meet existing needs. The proposed reductions would only make it that much more difficult for low income families to meet the high and rising fuel costs.

Rather than accept the administration's proposals, we urge that current levels of funding for the low income energy assistance program be maintained and increased as soon as possible. In that regard, we certainly support your bill, Mr. Chairman, H.R. 5791. In addition, we urge a requirement of comprehensive demographic data collection and standard reporting by the States to allow for improved program evaluation and planning at the State and Federal level.

Finally, with respect to the social services block grant, we are dismayed that a drastic reduction in funds has been proposed by the administration once again following a 25-percent funding cut only last year. The administration claims that the proposed allocation will put the States in a position to develop more cost-efficient and effective social services delivery systems. We disagree. The evidence points not to more effective and efficient delivery of social services but rather to a dismantling of the system now in place with particularly harsh consequences for the elderly.

We, therefore, urge the Congress to reject the administration's proposals to further reduce the social services block grant. Instead, the program should at least be maintained at fiscal year 1982 levels in the budget year ahead, or increased in accordance with the provisions of your bill, H.R. 5791.

That concludes my summary, Mr. Chairman. I thank you for the opportunity.

[The prepared statement follows:]

STATEMENT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS

I. Public Assistance Program Cuts: Wrong Deficit Reduction Strategy

In reaction to the large projected budget deficits -- deficits created mainly by the current intense recession, last year's unaffordable and ill-targeted tax cuts and unprecedented increases for defense -- the Administration has placed before this Subcommittee an assortment of so-called "spending reforms" in federal assistance programs. These reforms cannot be disguised as anything but a chipping away -- and in some cases gutting -- of the already meager benefit protections provided to some of the poorest and neediest segments of our society.

Rather than go along with any budget reduction strategy that entails substantially decreasing public assistance programs, we would urge Congress to make a maximum effort to raise revenue as a means for reducing the deficit. We have recently testified before the full Ways and Means Committee detailing several specific revenue raising devices which would narrow the deficit considerably (over $70-100 billion annually) as well as contribute to a more healthy economy.

II. The Elderly's Deteriorating Income Situation

In considering program cuts such as the ones before the Subcommittee, we hope Congress will recognize that a decade of inflation has forced the elderly into a position in which they find themselves, through no fault of their own, heavily dependent on government entitlement programs for the bulk of their income support. The immediate consequences of large-scale cutbacks in programs like social security, Medicare and Medicaid will be even greater increases in the elderly poverty rate than have already occurred and a more rapid deterioration in their subsistence-level standards of living. Cutbacks in the programs under this Subcommittees jurisdiction, such as the Supplemental Security Income (SSI) Program, the Low Income Home Energy Assistance Program (LIHEAP) and the Title XX Social Services Program will merely deepen the poverty already experienced by many elderly since these programs are already targeted on the poor.

Before commenting in detail on the Administration's proposed cutbacks in these three program areas, SSI, LIHEAP and Title XX, we would like the Subcommittee to be aware of the following income and poverty statistics as they relate to the elderly.

* The 1980 elderly (age 65+) poverty rate of 15.7% was the highest experienced by any adult age group. Aged poverty steadily declined through 1978, but increased from 13.9% in 1978 to 15.1% in 1979 and again in 1980 to 15.7% -- the largest two-year aged poverty rate increase recorded since the Census Bureau began collecting such statistics.

* Poverty rates among the most vulnerable aged subgroups -- namely the oldest and single persons, many of whom are widowed -- are alarming. In 1980, the following poverty rates were experienced among the single aged population:

31.5% for single women age 65-71

34.4% for single women age 72+

28.6% for single men age 65-71

25.5% for single men age 72+

* So many of the elderly are clustered just above the poverty threshold that relatively small drops in income will cause poverty rates to escalate dramatically. Among single social security recipients age 62+, 18.4% of them or roughly 1.5 million persons had incomes in 1980 between $4,000 and $5,000, within $1,000 of official poverty. Among families headed by a person 62+, 13.7% or about 2.5 million persons had incomes within $1,500 of the official poverty line. Thus, in 1980 roughly 4 million older persons, while not officially defined as "poor" had incomes low enough to put them at risk of becoming officially poor should substantial cuts in social security or underlying welfare programs be legislated.[1]

* Other statistics demonstrate the disadvantaged position of the elderly relative to the rest of the population. For example, in 1980, while only 8 percent of non-elderly households had annual incomes below $5,000, 26 percent of elderly households had

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[1]Borzilleri, Thomas C., "The Distribution of Income and Social Security Benefits Within the Aged Social Security Beneficiary Population in 1980", April 5, 1982 (available from the NRTA-AARP).

annual incomes below $5,000. Similarly, only 20 percent of non-elderly head-of-households had annual incomes under $10,000, while 56 percent of the elderly head-of-households had incomes in that category. Even adding to their income the cash-value of the in-kind benefits the elderly receive does not change the reality that the elderly, as a group, generally subsist on low and in many cases wholly inadequate incomes.

III. Supplemental Security Income Program Cutbacks

The Administration is advancing several proposals in the SSI area which HHS Under Secretary David Swoap has characterized as "relatively minor changes" designed to relate benefits more closely to income, tighten disability eligibility requirements and simplify administration. These "minor" changes would total $286 million in cuts in FY 83 and escalate to $489 million in FY 84.

Beyond any shadow of a doubt, these proposed cutbacks would zero in on one of the lowest-income and most disadvantaged segments of our population and should, therefore, be rejected. I doubt that this Subcommittee needs to be remind that only persons with incomes well below the official poverty threshold are eligible for SSI benefits. The SSI federal payment standard only guarantees an income at approximately 73% of the poverty threshold for singles and 87% for couples. Currently annual guaranteed payment levels stand at $3,176 for an individual and $4,764 for a couple -- hardly "adequate" income standards. What program could be better designed to relate benefits more closely to income -- one of the Administration's goals -- than SSI.

The Supplemental Security Income (SSI) Program was originally created in 1972 to provide policymakers with an effective and targeted instrument for reducing the extremely high incidence of poverty prevailing among the elderly and disabled. Even though social security benefits increased substantially, especially during the late 1960's and early 1970's, SSI benefits have

been needed by many elderly and disabled persons who either lack social security coverage or receive very low social security benefit levels.

However, even receipt of both social security and SSI benefits still fails to guarantee a minimum income above the poverty threshold for many. Among aged families with SSI and social security income alone, 50% were living below the official poverty line in 1977; for single persons in these circumstances, 60% were in poverty in 1977. Obviously, accepting the Administration's SSI proposals will only worsen this situation.

A. Elimination of $20 Unearned Income Disregard
(Savings: $15 million in FY 83)

Under current law, all SSI recipients are allowed to disregard the first $20 of monthly "unearned" income in determining SSI eligibility and calculating payment levels. The Administration proposes to eliminate this $20 disregard for new eligibles, arguing that is is a special, unfair advantage which benefits only those persons with outside income (i.e., income other than SSI), thereby disadvantaging those who are wholly reliant on SSI.

In pursuing this extremely misleading rationale, the Administration has failed to reveal that two out of every three SSI recipients claim the $20 disregard and for most of them, especially the aged social security represents the outside, unearned income that is disregard. In fact, 85% of aged SSI recipients claim the $20 disregard. What the Administration

has tried to disguise as an "equitable" reform really amounts to a $20 per month across-the-board reduction in the SSI payment standard. They obviously lack the courage to call it that.

This $20 per month (or $240 per year) effective reduction in SSI payments is a 5-8% cut in the federal guaranteed payment level. Since "average" SSI payments are generally 25-40% lower than the guarantee level, elimination of the $20 disregard could mean as much as a 15% cut in average SSI payments.

Given the statistics presented earlier regarding the high poverty rates among SSI recipients, there can be no reasonable rationale for making an across-the-board cut like this in a program that has still been unable to accomplish its very limited objectives.

B. Tightening SSI Disability Rules

Two proposals are made by the Administration, they claim to "help ensure that SSI disability benefits are paid only to recipients who are totally and permanently disabled." They would require:

1) a prognosis for an individual's impairment to last at least 2 years, rather than 1 year as under current law (savings: $45 million in FY 83); and
2) the use of objective medical factors in determining disability rather than subjective non-medical factors -- such as advanced age, lack of education, work experience or propsects for re-employment (savings: $75 million in FY 83).

Again, we urge the Subcommittee to reject these proposals. They would most harshly impact on older disabled workers since this is the group that is most likely to utilize "non-medical" factors in seeking disability status. Older persons already comprise the majority of the SSI disabled -- in 1979, 60% of disabled SSI recipients were age 50 or over and 35% were age 60 or older. SSI is often described as a program serving predominantly disabled rather than aged persons. If one considers the advanced age of SSI's disabled recipients, a different age profile emerges. In fact, in 1979 nearly 80% of all SSI recipients were over age 50.

The underlying intent of the Administration's proposal to tighten SSI disability rules is to deny eligibility to those persons they consider to be not sufficiently disabled to prevent them from working. We would ask the Subcommittee to think twice about this line of reasoning. What so-called "marginally" disabled individual would resort to a severely means-tested program, like SSI (instead of working) unless they had no other choice. SSI benefits, at a maximum, pay only $264 per month to an individual. The Administration tried last year to advance this same set of proposals for social security and Congress wisely jettisoned them mainly because of their harsh impact on older workers. SSI, however, is not social security; it is strictly a needs-based program which aids aged, blind and disabled people who have extremely low, sub-poverty level incomes and

virtually no assets except for a home and limited personal belongings. Any reasonable analysis would conclude that any disabled person on SSI has no other option -- let alone a work option - available to them. Therefore, there is little threat that persons who are not "truly" disabled are SSI recipients.

Beyond our Associations substantive objections to these SSI disability changes, we would argue that altering the SSI disability determination rules would put SSI out of sync with the rules used under the social security disability program. Not only would it make potential SSI recipients a class that is irrationally discriminated against, but program administration surrounding the disability determination and claims process would be made unnecessarily complex. The Administration claims that "simplifying program administration" is one of its overall objectives for SSI reform. Establishing a set of rules for SSI disability determination which are totally different from those used for social security will be confusing and will complicate an already highly complicated process, putting additional burdens on SSA personnel.

C. Prorate First Month's Benefit and Round Down Payment Levels to Nearest Dollar

(Savings: $60 million in FY 83)

The Administration proposes to prorate the first month's benefit to reflect the actual date of application or first eligibility (if later). This proposal would thus eliminate

payments for the part of a month which precedes a person's eligibility or application for SSI. Also proposed is a rounding down of the monthly payments to the next lowest dollar.

Our Associations would urge the Subcommittee to reject this rather mean-spirited, chipping away of SSI payment levels since the SSI recipient population is hardly in any reasonable financial shape to bear even small cuts in income.

Furthermore, it is unclear as to whether the prorating proposal would affect current SSI recipients in addition to new eligibles. Given the rather large budget savings ($40 million in FY 83) anticipated by this provision, the Administration must contemplate that this cut will affect a fairly large part of the SSI beneficiary population.

D. Modification of Retrospective Monthly Accounting (Savings: $20 million in FY 82; $40 in FY 83)

The Administration is forced to seek a modification of the SSI provision for retrospective monthly accounting which was hastily considered and enacted as part of the 1981 Omnibus Budget Reconciliation Act. Apparently, the change from a three-month prospective accounting period to a one-month retrospective accounting period has the unintended effect of temporarily giving SSI recipients who also receive social security an extra bonus for the months of July and August due to the July cost-of-living increase. In other words, there is a two-month lag before the correct SSI benefit is paid to the recipient.

We urge the Subcommittee to reject the Administration's proposed modification (the details of which are not specified) and return to the prior law provision of a three-month prospective accounting.

E. Recovery of Overpayments
(Savings: $16 million in FY 83)

The Adminstration is seeking authority to recover SSI overpayments by withholding benefits payable to the overpaid person under social security or the Black Lung Part B Program. Again, we believe this is a rather mean-spirited proposal that ought to be examined carefully. If it is the fault of SSA and not the individual that an SSI overpayment is made, then we do not believe it is appropriate to recoup the overpayment from social security or other SSA-administered program.

F. Elimination of Mandatory Pass-Through Provision

Currently when federal SSI payment standards are increased to reflect rises in the cost-of-living, states which supplement the federal payment are required to maintain their level of supplementation and not decrease it. Prior to passage of this mandatory pass-through provision in 1977, some states would decrease their state supplements by the amount of the federal cost-of-living increase and thereby absorb the money entailed with the federal increase into state coffers rather than passing the money onto SSI recipients as was intended by the Federal Government.

Repeal of this provision, as proposed by the Administration, should be rejected because it would simply permit this improper procedure on the part of the states to be practiced again. There was a good reason to enact the pass-through in the first place -- that is, to ensure SSI beneficiaries received the full federal cost-of-living increase which was inteded for them -- and that reasen still exists.

We do not believe the states are overly burdened by this provision; the pass-through does not require a state to increase its supplementation, it merely requires the states to maintain it.

Repealing the pass-through would inevitably mean a decline in state SSI supplements. This would be particularly onerous at this time when states are already cutting back on other federally-supported benefits received by the SSI population such as Medicaid and social services.

G. Goals for SSI Reform

As pointed out earlier in this statement SSI, in coordination with the social security program, has been unable to achieve the primary objective of providing at least poverty-level subsistence for the aged, blind and disabled. With this goal in mind, we make the following recommendations for future SSI improvements:

With respect to payment levels, the federal portion of the SSI payment should be increased to at least 125% of the poverty level as defined by the Census Bureau. State supple-

ments to the federal payment must also be encouraged so that recipients can be compensated for regional cost-of-living variations.

SSI's partial disregard of unearned income (usually social security benefits) should be made on a progressive rate basis (at least 20% disregard) rather than on a flat dollar ($20 per month) basis. Due to automatic cost-of-living increases in social security benefits, many SSI recipients have either lost their SSI eligibility or experienced a net reduction in total income from SSI and social security combined.

In order to encourage employment, SSI's $65 per month earned income disregard should be raised substantially and thereafter, automatically indexed to wages. Also, public service job opportunities and job training and referral mechanisms should be created specifically for SSI recipients.

The Associations also recommend elimination of the one-third SSI payment reduction imposed upon individuals who live in the household of another. This arbitrary reduction discourages elderly poor persons from living with relatives and often results in their premature institutionalization.

Finally, SSI's current assets limitations of $1,500 for individuals and $2,250 for couples should be substantially increased and eventually eliminated. An estimated 12% of elderly families with incomes below SSI payment standards were denied benefits because of the assets tests.

IV. Low-Income Home Energy Assistance Program (LIHEAP)

The Administration has proposed a cut-and-fold treatment of the Low Income Home Energy Assistance Program (LIHEAP) once again in fiscal 1983. The proposal, which would reduce LIHEAP from its current spending level of $1.875 billion to $1.3 billion and would merge it with the Emergency Assistance Program, is essentially a repeat of what was offered in block grant form by the Administration last year. While Congress accepted the block grant in FY 82, it rejected the drastic cuts proposed, as well as the proposal to include other programs in the block grant besides LIHEAP. We hope Congress will recognize the need to make the same choice this year.

Rapidly escalating fuel costs are of major concern to the elderly. For the past two years running, the NRTA-AARP National Legislative Council has cited maintenance of and expanded access to the Low Income Energy Assistance Program as a top legislative priority. A recent study commissioned by the National Council on Aging confirms that, among older Americans, energy cost inflation heads the list of perceived daily life problems. A closer look at the impact of energy costs on low-income elderly explains why.

Since October 1973, energy costs have increased 2¼ times more rapidly than the overall rate for all other items in the Consumer Price Index. This precipitous increase has severely and disproportionately taken its toll on the elderly and particularly on those living on relatively fixed incomes. Because the price inflation for fuel has risen faster than the overall CPI, energy costs have outpaced increases in social security and Supplemental Security Income benefits under the automatic benefit adjustment provisions. Furthermore, because these benefits are adjusted after price increases rather than rising in tandem with them, the purchasing power of these income components tends to decrease as energy costs rise. This situation has been reflected in the decline in the elderly's real income and the precipitous increase in rates of poverty and near poverty among them, discussed previously.

Not only do the low-income elderly have little financial ability to absorb higher fuel costs, they also have little flexibility to shift consumption patterns to accommodate the higher prices of fuel. Studies done by the Bureau of Labor Statistics indicate that older persons, in comparison to younger consumers, spend a disproportionate amount of their income on basic necessities. In comparison to the non-elderly, the elderly already spend 33 percent

more of their budgets on fuel and utilities, 11 percent more on housing, 44 percent more on out-of-pocket health expenses and 11 percent more on food at home.

Moreover, the elderly already use less energy than any other age group, they tend to live in older dwellings which are poorly insulated, and they are more susceptible to harm from the extremes of hot and cold weather. In short, no group of citizens is more vulnerable to and less able to cope with temperature changes and the costs which accompany the heating or cooling necessary to live.

A. LIHEAP: 1981 Changes And New Proposals

The elderly's income situation and their vulnerability to escalating energy costs cannot be ignored when we examine the changes made in LIHEAP during the past year, and those proposed for the future.

As previously mentioned, last year's Administration proposal was for a very large (25%) reduction in funds for fuel aid, theoretically justified by administrative savings to be achieved by turning the program over to the states, and a merger of LIHEAP with other programs in a block grant to the states. Federal "strings" were to be loosened, permitting more flexibility to state administrators determining needs at the local level by freeing them from cumbersome, time-consuming federal regulations.

1) Funding Cut

In testimony regarding these proposals last year, the Associations took issue with the rationale given for a huge cutback in funds for the program, pointing out that LIHEAP funds were

already distributed to the states essentially as a block grant, and that there was little to be saved by formalizing this relationship. Moreover, we said, reducing funds for this assistance would ignore the fact that energy costs continue to increase over and above the 200 percent rise they registered between 1972 and 1979.

In fact, according to the Consumer Price Index, from December 1980 to December 1981, fuel and utilities increased in price by 14.5%, whereas all other items went up by only 9%. The combination of this continued upward trend with scheduled or accelerated natural gas price decontrol can be expected to push fuel prices beyond the reach of many needy older persons.

We also noted last year that oil and natural gas decontrol are federal initiatives, and that it is therefore incumbent upon the federal government to continue to provide energy assistance to those in need. The Windfall Profits tax, we indicated, was an appropriate and adequate source of funding for this program, and it should continue to be utilized to tap a portion of the high profits flowing to oil companies from oil decontrol to ensure the protection of low-income households. Such households can ill afford the skyrocketing costs of home energy.

Congress clearly demonstrated concurrence with our view that LIHEAP should not be cut back when it reauthorized the program at a level of $1.875 billion, and followed up with appropriations for the program of $1.752 billion and, recently, a supplemental $123 million.

Even with appropriations set at the full authorization level, however, LIHEAP is inadequately funded to meet existing needs. Of the 21 million households which the Department of Health and Human Services estimates are eligible for assistance, fewer than 8.5 million households were expected to be helped by the $1.752 billion appropriation. The recently enacted supplemental will scarcely put a dent in the balance of needy families.

It is therefore astonishing to find that the Administration believes an FY 1983 allotment of $1.3 billion will be sufficient to fund LIHEAP. We see nothing in the program's experience or the current trend in energy prices and the economy overall to warrant such a conclusion.

Those who suggest that additional funds for energy assistance can be found in other block grants to the states, such as social services or community development, fail to acknowledge the fact that the programs consolidated under those block grants have themselves been cut drastically; in some states, funds have even been transferred out of the energy assistance block grant to fill in gaps caused by cutbacks in these programs. This is more an indication of the desperate needs existing on all sides than a reflection of any lack of necessity for energy aid.

The Associations believe that the low income home energy assistance program is crucial and, if it is not to be expanded, it must at least be maintained at current funding levels. Moreover, a tax similar to that levied on windfall oil profits should

be constructed to recapture some of the profits from natural gas decontrol -- whether or not decontrol is accelerated, and whether such acceleration were to occur through legislative or administrative means. If low income families are vulnerable now, their situation will be all the worse as prices for other fuels begin to rise full-throttle.

2) Emergency Assistance Fold-In

The Administration's proposal to include the Emergency Assistance Program in LIHEAP is unacceptable for two reasons. First, expenditures for that program, small though it is, would dilute funds needed to help low income families meet rising fuel costs, already shown to be far outpacing present assistance levels. Second, inclusion of a non-energy specific program in the LIHEAP block grant would open the door to other unrelated add-ins, broadening the focus of the block grant and diminishing the visibility of the problem it presently addresses. Moreover, such a diffusion would further blur the connection between program expenditures and revenues derived from the Oil Windfall Profits Tax, a connection already rendered somewhat tenuous by the appropriations process. We believe that that connection should be continually reinforced, in line with the clear intent of conferees to the Windfall Profits Tax legislation that the tax provide funds to cushion poor families against fuel price jolts precipitated by decontrol.

3) Data Collection/Reporting Requirements

The Associations recognize that one of the intents of the block grant formulation is to allow states more flexibility in determining needs at the local level, and we were happy to see that changes made in the program have allowed up to 15% of LIHEAP funds to be spent on low-cost weatherization. The Associations have long advocated the need to include weatherization in this program, as it is not fiscally realistic to continue to subsidize energy bills for homes which are not fuel efficient. This sort of flexibility in LIHEAP is welcome.

We also recognize that complex, lengthy regulations have posed problems for the states. We are concerned, however, that the degree to which some federal guidelines were simplified last year was excessive. The result will be a dearth of critical information needed for program evaluation and planning, and potentially, a failure to target assistance on typically underserved populations.

Specifically, state data collection and reporting requirements for LIHEAP were reduced last year from standard federal forms calling for detailed demographic data on households receiving

aid, to a non-standardized annual report from the states containing only two pieces of information: how many households received assistance and the income levels of those households. Recent statements by Administration spokespersons indicate that these skeletal reporting requirements would be still further reduced in FY 83.

Information from pre-block grant LIHEAP has been somewhat difficult to sort out. Under the old plan, states were permitted, for instance, to variously identify "elderly" program participants by an age of their choosing (no lower than age 60, however), making comparison among states less than perfect. Still, on the basis of reports received for FY 1981, the Department of Health and Human Services has been able to make at least preliminary estimates that some 40% of those who applied for and received energy assistance were older persons.

The new block grant program is unlikely to yield any data whatsoever as to the age, ethnicity or other demographic data on participants, nor consequently the degree to which LIHEAP is meeting the needs of various group configurations. This is a very serious problem, especially when one considers the discrimination traditionally directed against elderly and minority persons. We believe that strong, if minimal, federal guidelines must be put in place for administering LIHEAP, and that data collection and reporting requirements must be adequate to provide for state accountability.

4) Outreach

Another problem for prospective elderly participants in LIHEAP is the lack of outreach by the states to identify households eligible for assistance. In the face of soaring energy costs (the price of fuel oil is 2½ times higher now then it was in 1979), states have seen appropriations for LIHEAP swell only slightly from $1.6 to $1.875 billion. Understandably, state administrators have been disinclined to seek out additional recipients of fuel aid; assistance has already had to be reduced for repeat recipients and for those who have newly come to the program. It is the proud and isolated elderly person who is most likely to be overlooked under these circumstances, and who is most seriously in need of help.

5) Weatherization

While the Associations are pleased to see some weatherization activity allowed under the LIHEAP block grant, we are dismayed this year that the 15% allowance in that program and similar flexibility under the Community Development Block Grant (administered by HUD) are being presented as a reasonable substitute for DOE's home weatherization program, funded at $144 million in FY 1982. The Administration's proposal to drop this program in FY 1983, if enacted, would thrust all responsibility for cost-effective, conservation-promoting home weatherization on programs which are either ill designed or extremely inadequately funded to serve that purpose. The result, we anticipate, would be an even larger gap in this portion of the energy assistance package then has

already occurred through two successive years of cutbacks in the home weatherization program.

The Associations have in the past called for consolidation of all energy assistance programs, including weatherization, at the federal level. Eliminating DOE's home weatherization program, while providing an allowance for such activity under LIHEAP, could be seen as a step in the desired direction. We cannot support such a step, however, when no funds are provided to make such a shift in jurisdiction meaningful.

B. The Associations' Recommendations

Presently, energy assistance programs are administered by several federal agencies through state government units and local grantees. In addition, more then half of the states have created local programs to provide energy relief.

We believe that this fragmented approach to energy assistance serves the low income elderly inadequately and inefficiently. Instead of placing some energy assistance programs at the state level (through the block grant) and keeping other initiatives in various agencies in Washington, we suggest that the various energy assistance programs should be consolidated at the federal level. Such a coordination of programs would make current benefits more accessible, eliminate duplication or overlap, and fill in the gaps to meet needs where current programs do not. Furthermore, streamlining programs would reduce administrative costs, and within budgetary constraints, make it possible to reach more needy persons.

In our view, this consolidated federal energy assistance program would have three major components: direct assistance, weatherization, and outreach. Each state would have the flexibility to determine how best to meet these three goals, which would give them more flexibility and allow them in turn to consolidate fragmented energy assistance programs within their jurisdiction.

Following are our recommendations with regard to direct assistance provided by the Low Income Home Energy Assistance Program. First and foremost, the program must be funded at adequate levels in order to help the elderly meet their energy costs. Under the Windfall Profits legislation, LIHEAP was originally authorized at $3.1 billion, yet appropriations have peaked at the current level of $1.875 billion. Such sums help to offset some of the burden imposed by energy costs on low-income elderly, but only barely. To cut them back further would be unconscionable. Second, the income eligibility standard for the program should be maintained at a level which includes at least those with incomes up to 150% of the poverty line. The income eligibility standards used before last year (125% of poverty for the winter of 1979-80 and 100% of the BLS Lower Living Standard for the winter of 1980-81) were simply too low to reach the needy population. Third, older persons should be allowed a special exemption for medical expenses in determining eligibility to take account of their higher out-of-pocket costs.

Fourth, the program should continue to be administered through block grants to states. This approach can substantially reduce program fragmentation, allow states to design and implement programs to reflect the needs of the states, and facilitate coordination and cooperation between state and federal programs. At the same time, federal guidelines must be put in place to assure that the intent and purpose of the program is carried out at the local level and that states are held accountable for the use of federal funds. Standard federal reporting forms should be utilized for collecting comprehensive demographic data on program recipients.

As part of the guidelines for administering the program, states should be required to: develop and implement comprehensive energy assistance programs; make provisions to assure local coordination of all relevent social services; and develop local plans to assure broad-based energy assistance information dissemination and outreach. Ideally, the costs associated with these efforts should be borne through a partnership of public and private agencies. Finally, states should be encouraged to provide the bulk of energy assistance in the form of direct cash payments. This approach offers the most effective and rapid way to disburse payments to needy persons.

National energy relief assistance efforts should also emphasize weatherization and conservation. Materials and incentives to weatherize and information on weatherization and conservation must be made available to the elderly. According to a study by the Congressional Office of Technology Assessment,

in 1979 approximately 43 percent of low-income households had no insulation, 58 percent had no storm windows or storm doors and 39 percent had no thermostat or valve with which to regulate their heat. While the percentages have probably dropped somewhat since that time, they have certainly not been reduced to a level which would justify abandonment of the federal effort in this area. In the long run, monies spent on weatherization and conservation may be one of the most cost effective methods of energy assistance.

The final component of national energy assistance efforts is outreach. For the elderly, this is a particularly important component. Their personal prejudices toward assistance programs (the welfare stigma) substantially limit their participation in other assistance programs, such as SSI and food stamps. Since states tend to administer all assistance programs through local welfare offices, large numbers of needy elderly persons are not aware of and end up being left out of the Low Income Energy Assistance Program and other state and local assistance programs. While direct cash payments ensure that assistance is provided to at least those low income elderly who can be identified through participation in other federal programs, we urge that monies also be earmarked for the specific purpose of elderly outreach.

C. Summary

The Administration's proposals for a major cutback in the Low Income Home Energy Assistance Program and inclusion in the block grant of the Emergency Assistance program should be rejected. Even at current levels, LIHEAP is greatly underfunded, and the proposed reduction would further diminish aid to low income families struggling to pay soaring fuel costs. The add-in of a non-energy specific program (Emergency Assistance) would open the door to inclusion of other programs not directly related to the problem addressed by LIHEAP, leading potentially to a loss of visibility of the problem and those who are most severely affected by it.

We recommend instead maintenance of at least current levels of funding for LIHEAP and increased funding as soon as possible. In addition, we urge requirement of comprehensive demographic data collection and standard reporting by the states to allow for improved program evaluation and planning at the state and federal level. Ultimately, energy assistance program should be consolidated at the federal level and should include three major components: direct cash assistance, weatherization, and outreach.

V. Title XX/Social Services Block Grant

When Title XX of the Social Security Act was turned into a block grant last year, it sustained a cut in funding from $2.9 billion in FY 81 to $2.4 billion for FY 82. The Administration budget proposal for FY 83 would further reduce the program to $1.9 billion, despite planned annual increases provided for in last year's Budget Reconciliation Act.

Administration spokespersons have acknowledged in recent statements that the Department of Health and Human Services does not yet have available specific data on use of the block grant funds by the states, nor information on the impact of the block grant on specific client groups or use of state and local funds to supplement program services. Nevertheless, confidence is expressed that, in FY 83, with proposed funding cuts reducing the block grant by some 34% from its FY 81 level, states will be able to "develop more cost efficient and effective social services delivery systems."

We cannot help but doubt this contention. Emerging evidence points not to effective social services development, but instead to a rapid dismantling of the system now in place, with particularly harsh consequences for the elderly.

It is difficult to determine the level of participation in Title XX programs by the elderly due to flexible state reporting requirements. Moreover, state funding of social services targeted to the elderly varies widely, ranging from about five to thirty percent, according to a recent survey conducted by the House Select Committee on Aging.

That same survey, however, reveals that older persons in half of the states reporting could be subject to disproportionate cuts in services as states respond to 25% reductions in federal allocations legislated for FY 82. Among the services reportedly facing exceptionally large reductions, or elimination, are homemaker services, adult day care, transportation, home delivered meals, and other home care services. Assuming that state projections for this year are accurate, an additional reduction in the FY 83 Social Services Block Grant of $426 million is likely to be devastating in its impact on the elderly.

The newly restructed Title XX social services program has several broad goals, among which is the avoidance of premature or inappropriate institutionalization of the elderly and other vulnerable groups. Massive cutbacks in programs designed to enable older persons to remain in their homes as long as possible constitute a false economy as well as inhumane social policy. Maintaining older persons and others in hospitals and nursing homes is far more expensive than in-home care, and simply shifts costs to larger federal programs such as Medicare and Medicaid.

The Associations are also concerned about the already low allocation of Title XX funds to programs serving the elderly in some states. While we recognize that social service needs vary from state to state, and that flexibility must be provided for state administrators to target service funds accordingly, it is essential that the federal government continue to monitor this process to ensure that an equitable distribution of funds is achieved.

Even under the old Title XX program, this principle appears to have been violated in some states, often at the expense of older Americans. A 1978 U.S. Commission on Civil Rights study showed that older persons were significantly under-represented in receiving aid in ten major federal programs, including the Title XX program. Despite the requirements of the Age Discrimination Act, the low percentage of social services dollars benefitting the elderly in some states indicates that age bias is still a virulent force.

For this reason, the Associations believe it is important that the Social Service Block Grant be subject to the same safeguards as the other block grants enacted last year, including mandated public hearings on a state's annual social services spending plan. Most critical, however, is that the federal government fully execute its responsibility for oversight of this program, carefully examining state programs where equity

is at issue and, if necessary, taking action to enforce compliance. Although the Social Services Block Grant rightfully provides much discretion for states to design their plans, minimal standards set by the program and by the Age Discrimination Act must be maintained.

To conclude, severe cuts in the Title XX/Social Services Block Grant last year have already borne dangerous and costly consequences for the elderly and the American public as a whole. Additional cuts, such as those proposed by the Administration, would not only have a further disruptive effect on the present social services system, but would likely aggravate the demonstrated age bias marring some state programs and threatening others. We would urge Congress to reject the Administration's proposals for cuts in the Social Services Block Grant; instead the program should be maintained at its FY 82 level in the budget year ahead.

Chairman FORD. Thank you very much.
Mr. Harris.

STATEMENT OF JOHN D. HARRIS, PRESIDENT, NATIONAL COUNCIL OF SSA FIELD OPERATIONS LOCALS, AFGE

Mr. HARRIS. Mr. Chairman, my name is John Harris. I am the president for the National Council of Social Security Field Office Locals, affiliated with the American Federation of Government Employees. My organization is the labor union for 35,000 social security field office workers in over 1,300 district offices, branch offices, teleservice centers.

As you may know, SSA handles SSI at the field office level. My workers are the experts in that area then, and we are here today to testify specifically about SSI.

We have three main concerns. First, we want to express our opinion about the administration's proposal. Second, we would like to talk about the proposals that are submitted now to the committee. Third, we want to bring your attention to certain matters that have been taken upon by the administration, efforts to cut SSI benefits by fiat on the part of the Commissioner, and some other pending matters before Congress.

I have a statement which I would like to submit for the record and will briefly summarize its content.

On the administration proposals our overall feeling is that the administration's proposal is a radical departure from the social philosophy of SSI. Most of the proposals, all but one we oppose. The proposals are petty and miserly from our point of view. They all reduce benefits, some in small ways, some in large ways. They all will result in plunging people who are on SSI further into poverty.

Something I should remind you that perhaps you don't know, SSI payment levels are calculated deliberately at a level that is slightly below the level of poverty. We have always supposed that was to provide some incentives to work. Considering who is on SSI, we doubt that that incentive has much efficacy. Most of the people that are on SSI are very aged or very disabled. They are people who are not able to work. So incentive to work for them is meaningless. To cut their benefits and assume by that that they will be inspired to go out and get other funds by working is just absurd.

The only proposal that they have offered that we feel has some merit is the idea that SSI overpayments could be recovered by taking moneys from black lung and social security. We think that is a reasonable proposal and would help make collection somewhat easier.

All the other proposals they have made, we believe, small or large, are nothing more than ways of pushing these people down into further poverty.

As to the specific provisions of H.R. 5509 first, my workers were very glad to hear about that bill. We, as workers, object to the current practice in SSA of so-called debt collection. We find its attitude and many aspects of it highly objectionable.

Specifically, to take away from people their full checks, be it SSI or OASDI, to recover an overpayment is unconscionable. These people will literally have nothing to live on if you take away that

money, and we really don't know where they're going to go. Some people we think will end up out on the streets.

Prior to the Commissioner's initiative, SSA had the policy of going with a 25 percent cap on overpayment recovery. That policy, we understand, was a result of court action. It was a sound policy, and it should be restored. If the administration will not restore it by administrative action, then H.R. 5509 should be adopted.

There are some problems with H.R. 5509, and we have proposed in our testimony some ways in which it should be changed. There are a few technical flaws that make the bill difficult as it stands to implement.

With regard to H.R. 5911, we also endorse those provisions. We feel that it has long been necessary to eliminate the practice of counting burial plots as a resource. All of us as workers have experienced situations where people are denied benefits because of a burial plot that they have where their spouse is buried and they hope some day that if they were going to die that they would be buried there, too.

We would ask with regard to that provision, though, that you adopt a limited retroactivity or at least require social security to review its record and determine if there have been people denied or disentitled within the last few years who could now been re-entitled.

With respect to burial insurance, most of the provisions in H.R. 5911 are good. We would add a few changes to deal with what is called the revocable burial contract. In some States people can and do set aside money with funeral homes for their future burial by contract, but those contracts by State law must be revocable. In those circumstances that money is counted as a resource. Therefore, it often can lead to the disentitlement of people.

We would therefore propose some changes to allow even these revocable contracts to be disregarded as a resource and counted only as income if it were spent for something else.

Finally, we urge you to consider an amendment to H.R. 5911 to disregard interest income as income for SSI purposes. Currently we are counting even small amounts of interest accrued on savings accounts as income—a few cents, 50 cents, a dollar here and there. It is not a source of income that could help the poor, but we have to verify it, we have to put it onto the computer, we have to recompute benefits, we have to charge people overpayments with it, and now under the new policy of social security we are actually sending them overpayment notices for a few cents here and there or for a dollar here and there.

We believe that the sums of money that are saved by counting interest income are in the hundreds of dollars, whereas the expenses to count that income and calculate payments on it are in the thousands of dollars. We believe it would just be cost efficient for you to disregard interest income on savings accounts.

Regarding the current administration of SSI, you are, sir, a new chairman and you perhaps do not know the history of SSI with the Social Security Administration. Briefly, SSI is the most mismanaged of all of the programs in social security. It is the bastard child of social security.

Social security spends most of its resources and energies on the OASDI program and ignores SSI. In 1974 to 1976 we were short as many as 5,000 workers to get the job done effectively. Today we are still short workers. Recently the Commissioner has cut our staffing another 1,100 people. Our offices are not capable of holding those workers. The space has never been upgraded or increased. To this day 30 percent of our offices are still overcrowded.

Worse still from our point of view is the fact that those offices where we serve the SSI recipients are typically the worst offices we have, literally crawling with cockroaches, rat-infested, warehouse-like environments that for these workers resemble sweatshops.

We feel that this kind of condition where we serve the Nation's poor, that kind of degradation is an implicit prejudice against the poor and against us.

In recent testimony to the House Committee on Appropriations we have asked for increased staffing and asked for funds to make repairs and alterations on field offices. We would ask your subcommittee to pass as a resolution a sentiment in favor of those proposals to urge that Subcommittee on Appropriations to favorably consider our proposals.

More than just appropriations measures are necessary to improve SSI. What you see with the SSI proposals from the administration are reinforced now by administrative actions of the Commissioner. Within the last year the Commissioner of Social Security has implemented several subtle changes to the way we administer the program which are going to reduce people's money. Some of those changes we believe are just illegal. In one instance we are aware that the General Counsel of SSA told the Commissioner that the proposal he was going to put into effect was illegal. That change, which will go into effect next month, will result in reduction of benefits to 12,000 social security recipients.

Finally, I want to call to your attention two matters pending in Congress outside of this committee for your interest. One is H.R. 5700, which is a matter on which the Subcommittee on Social Security recently completed hearings and on which they have had a markup.

H.R. 5700 affects SSI because it deals in changes in the way the disability determinations are made. We testified about that and objected to many provisions. Some of those provisions were changed, we are glad to say. Many still remain that we find objectionable.

Our main concern is, though, that that bill will not get at an excruciating problem that you are about to see. Due to a stepup in acceleration of investigations of people on disability, the Social Security Administration during this fiscal year and the next would propose to terminate 720,000 to 800,000 SSI and DI beneficiaries. That is approximately a 1,000-percent increase over its previous rate of cessations.

We feel that many of the decisions that are being made in these cases are unfair. We feel that the pressure to bring about such a sudden reduction is a cynical act. We would ask you then to consider investigating the disability practice as it relates to SSI and to conduct hearings on H.R. 5700 even within your own subcommittee to assess what impact that has on SSI.

Lastly, Mr. Chairman, we would like to briefly comment on a matter that is in conference between the House and the Senate. About 2 or 3 weeks ago the House by unanimous consent adopted a motion to repeal the retrospective monthly accounting computation on SSI. That retrospective monthly accounting or RMA had been adopted by the Omnibus Reconciliation Act of 1981 without hearings, without an assessment of its administrative impact, without an assessment of how it impacts the recipients.

Your committee took the lead to repeal that. We endorse the proposal that you have made. It is a sensible proposal. We feel that RMA as it stands creates more hardship on those we serve than it does any real savings.

We have looked at projections of savings and found that most of the savings intended by that kind of change have been gained simply by going from a quarterly computation to a monthly computation. Most of the savings have been gained by going with the so-called windfall offset provision whereby SSI overpayments are offset by title II underpayments.

We think that what remains are negligible amounts of money that when viewed in comparison to the way it affects our people, the SSI recipient, do not justify going with RMA. Specifically, what is going to happen if we continue with RMA is the money that is needed for the poor to pay for their expenses will not be available for them for 2 months until after they need it. If you were an SSI recipient and you had a change this month, you had an outside income, that income for some reason dropped, under RMA, SSI would not increase for you until June. Between now and then, you would be short the money that you would need for your living expenses.

We believe that kind of situation is going to be altogether too common. The only way to alleviate that problem is to go to a current monthly accounting such as you proposed.

I urge you and the other members on this committee to work in that House-Senate Conference to see that the RMA provision is repealed.

And that concludes my statement.

[The prepared statement follows:]

STATEMENT OF JOHN D. HARRIS, PRESIDENT, NATIONAL COUNCIL OF SSA FIELD OPERATIONS LOCALS, ON BEHALF OF THE AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. Chairman, my name is John Harris and I am president of the National Council of Social Security Field Operations Locals, an affiliate of the American Federation of Government Employees (AFL-CIO). My organization is the labor union for 35,000 SSA field office workers in 1,300 District, Branch and Teleservice Centers across the country.

We are here today to testify about Supplemental Security Income (SSI) which we administer in those field offices directly. Because the SSI program is directly administered by field office workers, we have a unique hands-on knowledge about it and I hope what we say will be useful to you. My people feel great sympathy for the SSI recipients and applicants we serve. We share with them their frustration over regulations and law which are unfair to them and we testify today to bring changes to help them as well as to improve SSI administration.

We want to testify to three areas of concern. First, we want to respond to proposals of the Administration regarding SSI. Second, we want to recommend some changes and additions to HR 5509 and HR 5911 which you are here to specifically consider. Finally, we want to bring to your attention certain administrative practices recently adopted by the Commissioner of Social Security which we think are unwise, unfair, possibly illegal, and which your committee should investigate.

Administation Proposals

Overall, it seems to us, the proposals of the Administration represent a radical departure in the social philosophy of SSI. They seem designed primarily to cut costs of the program but without regard to the people on the program. My people share the objective of making government more effective and

cost/efficient but not at the expense of the public we serve. Frankly some of these proposals are petty and miserly; some of them are cruel. None of them reflect any sympathy for the SSI recipient and seem to us punative of a people who are friendless and helpless but for the government that gives and takes away their sustenance.

The proposals, for example, to prorate the first month's benefit payment to the days left in the month of application and to round down SSI to lower dollar are not going to make administration easier. In some ways administration is made more complicated, and costs may outweigh some savings. These are petty proposals.

To prorate the first month's benefit takes away from the SSI recipient anywhere from 3% to 97% of their first month's benefit, depending upon when the applicant files his claim. Obviously the SSI applicant can't get benefits unless he meets our income test. That income test means he's below the poverty level. To cut this benefit means we condone that poverty. Moreover, some of these applicants are receiving state or local assistance when they apply for SSI. That local assistance is always less than what SSI pays; even lower now because of wide-spread budget cuts flowing from shortages in federal funds as result of the Reconciliation Act of 1981. By regulation we repay the states for assistance they have given the SSI applicant while he waits for SSI benefits. With this proposal we will reduce the amount we pay back to the states—again, by 3% to 97% of the first month's benefit. I have to assume the states will have to go through another round of budget cuts to make up this shortfall.

The second proposal to round benefits down to the next lower dollar is miserly in the extreme. You've got to ask yourself

whether those few cents benefit this multi-billion dollar government more than the poor. I suppose one could say that the poor won't miss that 50 cents, those cumulative dollars, but it makes me wonder who is being more petty here. Even so the total amount of dollars involved becomes pretty considerable and so takes on some significance when you look at total federal outlay. That makes us wonder if you are aware how these entitlement monies affect the economy as a whole. In all this talk about cutting entitlement programs, cost of living allowances, etc., no one has assessed the impact which these have on the GNP. Recently the Morgan Guarantee Trust Company reported the economy will indeed recover with the combined capital push of tax cuts and cost of living allowances. Without commentary on the efficacy of the tax cuts, let me say this was the first time I'd heard a conservative banking establishment acknowledge the economic impact of transfer payments. Fully 60% of the GNP is driven by consumption of goods and services. Cuts in consumption resulting from cuts in entitlement programs will adversely affect the GNP, will cause loss of jobs, and economic deterioration. And we don't believe that the transfer of those monies back to the rich from the poor will in the end benefit the economy more than keeping those monies with the poor. Dollars for consumption are active and immediate. Dollars for investment can be inactive, hoarded, and, even if utilized, have a slower and unfocused effect. But we don't think the health of the economy is measured by the numbers of millionaires but by the numbers of poor, and proposals like these add to the number of poor.

The proposals to change the definition of disability for SSI are especially cruel. Similar proposals for Social Security were rejected by public outcry and it seems the Administration thought they'd have an easier time with SSI alone because these people are less powerful politically. In fact the poor are

politically invisible.

Whatever their motives, these proposals are not made because those 18,000 per year who would be denied benefits are not disabled or are not poor but simply because this Administration doesn't want to help them.

The specific proposal to change the criteria from a 12 month to 24 month period of disability is infeasible. Medical sources have advised us that it is very difficult to even give a 12 month prognosis; to give a 24 month prognosis would be all but impossible. Only congenital diseases or handicaps or diseases which end in death would meet this test. Practically none of the mentally ill would ever be allowed, nor would those suffering strokes, heart attacks or many catastrophic injuries. To remove these from benefits not only would displace those who now apply but would throw hundreds of thousands off the SSI rolls and onto the streets. The burden on states and local governments is almost inestimable. At a time when these are struggling to made ends meet, we assume these people will become homeless, helpless, and many will literally die in the streets.

The proposal to eliminate vocational/educational and age factors in making disability determinations has a similar effect. It is unconscionable. Again, it is not posed to you with the question: what is the right thing to do? Rather, you're given this proposal as a tax savings. The human cost is not assessed. Frankly, Mr. Chairman, the tax breaks to the common worker do not justify these hardships on the poor and indeed those imposed on the common worker. I for one will give you back your $250 for an effective EEO and OSHA administration and a program to keep the poor from the crush of their misfortune. It's not worth it to me to have that $250 when I see what it will mean.

The proposal to eliminate the $20 disregard for income will cause both administrative problems and hardships. It is in effect a cut in benefits and I would remind you that Congress already holds SSI payments to a level below poverty, a fact I've never understood. I guess the idea of keeping the SSI payment low is to give incentive to these 80 year old widows and severely retarded children to work. You have already built in that incentive and this additional $20 cut in benefits won't really make for more incentive. In fact, looking at the record of SSI people working, the incentive to work is not the problem; the problem is that these people are too old or too disabled to work just as you asked that they should be to qualify for SSI.

The last proposal of the Administration, however, is one that we can agree with. The proposal to permit recovery of SSI overpayments by deductions from OASDI and Black Lung benefits is long overdue and will aid us in our efforts to collect overpayments. If administered properly and fairly, it will also assist the recipient in budgeting the recovery of that overpayment. We endorse this proposal.

HR 5509

We received news of this proposal with a sense of relief and encouragement.

The Social Security Administration has embarked on a crusade to recover its backlogged overpayments with an attitude and with some schemes that we, the workers, find objectionable. Again, we share the concern that overpayment recovery in SSA is mismanaged. We have submitted reports to DHHS and SSA both in efforts to improve management. Nothing, however, has come from these volunteered ideas.

But to call overpayments "debts" as SSA now does, and to treat these people as "debtors" "deadbeats" and "chiselers" is wrong. Overpayments in SSI and OASDI are rarely the result of fraud or bad faith. Many are caused by SSA itself. Some are the result of the incompetence of our computer system and some are the result of strange twists of our regulations and our changing interpretations of the law. We suspect that in terms of dollars the worst examples of overpayments are the result of administrative errors. For example, last year a half-million OASI beneficiaries were overpaid and underpaid for a period of five to six months because SSA couldn't get their computer system to process voluntary reports of earnings. A similar thing has occured this year.

SSA's "debt collection" initiatives involves several strategies. Among them are:

- collecting overpayments even of marginal amounts which cost more to collect than we collect;
- collecting overpayments by withholding entire benefit checks;
- charging interest for installment payments;
- adding penalties for late payments;
- reducing SSI benefits by the amount of OASDI benefits withheld to recover OASDI overpayments so that the total personal income of that person is effectively reduced instead of the current practice of maintaining his income;
- limit and narrow the opportunity and right to waivers of recovery of overpayment, even where the person is without fault;
- release information about SSI and OASDI overpayments to credit bureaus in order to destroy credit ratings;
- contract out collection of overpayments to private collection agencies.

Some of these steps have already been taken. Some will start soon.

Among those which SSA has already started is the 100% withholding of SSI checks to recover overpayments. That is the subject of HR 5509.

The bill is well-intentioned but flawed. We endorse the limitation of a 25% rate of recovery. But the dollar limitation of $10 is unreasonable, and would impede effective recovery. A dollar limitation which is 25% the current standard payment amount of recipient (before reduction for other income) would seem more practical. If this is deemed too high, a dollar amount of $50 is more reasonable. The main problem with the bill, however, is that the limitation only applies if the person is "without fault" in causing the overpayment. But if he is "without fault" and is currently on SSI, the whole overpayment will be waived anyway; there never will be recovery so the limitation will never apply.

"Fault", you should understand, does not equate with "intent to defraud." Technically under SSA regulations a person is at fault in causing an overpayment if for some reason he gets overpaid because of a change in his circumstance which he fails to report. Because SSI is so complex many do not understand all the things that can affect payment and SSI recipients are as a group poorly educated and often limited in their faculties. Nevertheless, it is their "fault" that the overpayment occured because "they should have known" that they were overpaid. Similarly, when they receive an erroneous payment caused by our computer, they are at "fault" because "they should have known" that they weren't entitled.

Accordingly, we propose that you amend Section 1 of HR 5509 to

read:

(1) by inserting "(A)" after "The Secretary"; and
(2) by inserting before the period at end thereof the following: "and (B) shall in any case make such adjustment or recovery only through adjustments in future payments which do not reduce the amount of any such payment by more than 25 percent of the Standard Payment Amount of the individual or couple where fraud or similar fault did not cause the overpayment, so long as such individual or couple is receiving payments under this Title."

HR 5911

We endorse the provisions of HR 5911 as proposed. It has long disturbed workers in SSA that burial plots could result in disentitlement to benefits, especially when such burial plots were family plots where the spouse of the SSI recipient was interred. Policies such as this give the government a bad name. We would ask, however, that in view of the fact that many people have been denied or disentitled from benefits over years solely because of this "resource," that your bill be amended with a limited retroactivity, perhaps up to two years, so that these people can be reentitled. SSA should review their records to determine whether such people would then be eligible.

The provision of burial insurance is helpful but will not wholly resolve the problems we have where persons have contracturally set aside monies with funeral homes for personal burial expenses. In such cases, some contracts are considered "irrevocable" and such money is not counted as a resource to the SSI recipient because they can't use it for immediate living expenses. But in other cases, where a contract is signed with

the funeral home and state law prohibits an irrevocable contract, the money set aside for personal burial expenses is considered a resource available for immediate living expenses.

We believe that such people should be encouraged to have such resources. For if their personal contracts do not provide their burial expenses, in many cases it is the state and local governments who end up paying these expenses. Therefore, we would propose that amounts up to $1,500 should be excluded as a countable resource when such funds are set aside by bona fide contract for personal burial expenses where such contract might otherwise by revocable, provided that such contract is solely for burial expenses of the SSI eligible individual (or in the case of a couple, solely for either eligible member, up to $2,500) and provided further that if monies under that contract are used or withdrawn by the eligible individual or couple for other than personal burial expenses, that such monies will be counted as income.

Finally, we propose that HR 5911 add provision to exclude interest income from commercial bank accounts, credit institutions, and other similar institutional savings and checking accounts. Currently, the law specifically requires that interest income is counted. Some can be excluded under a narrow definition of regulation but that exclusion is draconian in its application and doesn't include interest on bank accounts in most cases. Even if an eligible individual receives interest income from a common savings account with the maximum allowable investment of $1,500 (the liquid resource limitation for SSI), their total annual income from interest won't exceed $100, and it comes in drips and drops that is hardly usable as a real source of income over the year. Typically we are dealing with a few dollars a month at most and sometimes fractions of dollars. But as it is this is countable income, it must be reported, it

must be verified, and commonly results in technical overpayments because, small as it is, it is not reported.

Under older policy, such overpayments would be disregarded. Now SSA requires us to recover them from peoples benefit checks. This is another example of the pettiness of some of our practices. But it also underscores the questionable administrative efficiency of a program which spends tens of thousands of dollars in computer time, letters, postage, and work years to discover, verify, and record such income and ultimately to discover, compute, and recover such overpayments—the total yield of which is measured in the hundreds of dollars of savings.

Therefore, we urge you to adopt an amendment to exclude interest on such bank accounts as countable income for SSI. This provision should be effective with enactment. The union endorses this amendment with no illusions about the fact that it saves work years and affects staffing. But we are confident that no reduction in staff should result from this, rather it will free us to attend to some other matters which are neglected because we are understaffed.

Current Administration of SSI

SSI is the most poorly managed of all programs under the Social Security Administration. Historically, its workloads have always been underestimated and heavily backlogged. This was true in 1974-76 when shortages were as great as 5,000 work years, and it is true still today where you would find that SSI workers are typically working large amounts of overtime and still can't keep up with their workloads. The stress of these conditions is so bad that SSA has found by its own study that most of its field workers are "emotionally exhausted beyond a tolerable degree." There is no doubt that such conditions affect the

quality of our public service both in terms of delays and erroneous payments. When you add to this the fact that after 7 years of program experience field offices are still overcrowded because they weren't designed to house the SSI program workers and often are in leased space that fails to meet local health and safety codes, you have working conditions that resemble sweat shops. Interestingly our worst working conditions are precisely in those offices of metropolitan areas which heavily serve SSI clientele. The "model offices" of SSA—which management proudly displays to visiting congressmen —with their carpets and muzak and new furniture are in stark contrast to rat-infested, filthy warehouses, crawling with cockroaches, with no public parking, where we serve the nation's poor. It is an implicit, if not overt, prejudice which tolerates these kind of conditions for workers and the public.

In our recent testimony to the House Committee on Appropriations, Subcommittee on DOL/DHHS, on April 1, 1982, we addressed these problems and we have asked that staffing be increased and funds authorized for SSA to repair and alter its field offices. Your committee can help us in this by adopting a resolution as a sense of the committee urging the Subcommittee on DOL/DHHS appropriations to favorably consider our proposals. Your support would underscore the concerns we share about the level of public service for SSI recipients.

More than appropriation measures, however, are necessary to improve SSI administration. But right now we are deeply worried that SSI is not just mismanaged but willfully and deliberately managed in such a way as to curcumvent and undermine the very mission of the program. A number of administrative measures have recently been adopted by SSA which adversely affect SSI recipients in the name of cost savings. Some of them are dubious legally and would actually cut SSI benefits by fiat.

Others result in delayed payments and erroneous payments. Among these administrative measures are the following:
- In 10/81 the Commissioner ordered workers to stop development on SSI claims while they are referred to state agencies for medical decisions. His idea plainly was to save manpower. But as a result SSI disability cases take much longer to process. Where once we routinely completed all our development of income, resource and living arrangement factors used in determining payment amounts before a medical decision was made, now we have to do that development after a medical decision, adding 2 to 4 weeks or more to the time it takes to get a payment to the applicant. All told the applicant may wait 3 to 4 months to get his first check.

Because some SSI disability claims are disallowed, this measure saves us some work, although at the expense of the applicant who is allowed. Based on this the Commissioner has actually cut field office staff by 1,100-1,300 full time positions and he has incorporated this policy into his budget resolution to Congress for fiscal year 1983. As it now stands, if Congress approves the SSA appropriation request, they are tacitly approving this policy of public service. A similar measure has taken affect for Social Security disability. I mention this partly to encourage you to join our protests over that appropriation request. I also mention it as one of many expedients adopted which shortchange the public.

- In March, 1982 the Commissioner changed a long-standing policy on counting resources which reduces entitlements to benefits in result. Like other changes, proposed or effectuated, the policy is one that slices the share of funds for the poor in the name of the budget. Real savings are negligible but the impact on the individual recipient can be dramatic. In his new policy the Commissioner has said that if at the beginning of the month the

recipient has more than $1,500 in assests (bank account, for example) he is not entitled to any SSI for that month, even if he spends down below that $1,500 limit. Previous policy permitted the recipient to go back on benefits because it had been our experience that occasional fluctuations in income, even minor ones, could cause the recipient to have too much savings for short periods, for example, an accrual of interest on a savings account. This sort of fluctuation was so irregular and unpredictable that the recipient could be punished for saving money if his cash resources were to be counted so meanly and narrowly as the new policy does. Indeed, under the new policy it is possible for a recipient to receive SSI payments, bank them for his daily expenses, and be found ineligible for SSI even though during the month he would spend them.

- In May, next month, SSA will implement a new practice which is yet another example of this new attitude and treatment of SSI recipients. Income has always been defined to be funds, goods, or services which are readily available and usable for immediate living expenses. For that reason income such as a gift of clothing is not normally counted as income when figuring payment amounts. The idea simply is that SSI is an income maintenance program, designed to insure housing and sustenance, and SSI is a basic floor below which is clearly abject poverty.

For this reason, if a person on SSI is overpaid Social Security and has to repay it by having his Social Security check cut, he will keep getting an SSI amount to keep him at the basic floor. The amount of money withheld from his Social Security check will not be counted as income. The Commissioner now proposes to change this. In the result some 12,000 SSI recipients will have their SSI go down and their total personal income plunge below that income floor. So much for the safety-net theory.

We understand that the Commissioner has been told by his General Counsel that this policy may violate Title XVI. It certainly violates the intent of the law. But he is not swayed by the argument, believing I suppose that any legal suit would not be quickly dispositive and in the meantime some "savings" could be made.

In fairness to this Commissioner, we should add that he is not the first to adopt expedients at the expense of the recipient for the sake of so-called "budget savings." Previous administrations over the past 10 years have adopted such expedients. In 1980, for example, SSA stopped verifying that representative payees for SSI recipients were actually spending the money on recipients. They stopped it, they said, because they didn't have the manpower to do it. Today they still do not monitor representative payee activity in either SSI or OASDI. We as workers who used to do these tasks know that as a result of this there are thousands who do not receive the benefit of payments made on their behalf and, we submit, SSA knows this but has condoned it as they enacted it—for short-sighted budgetary purposes.

I repeat that these sort of practices, whether prompted by a desire to save administrative costs or program costs, should be repudiated. A proper and sufficient administration should be funded and fair and humane public service fostered by SSA; the mean spirited, petty, and cheap administration which these practices illustrate should be rebuked.

Finally I want to alert you to a crisis in Title II and Title XVI disability programs which is about to overtake us. The Administration has stepped up investigation of the disabled and has adopted new stringent rules to evaluate their disability

in an effort to reduce the numbers of people getting benefits. Between 720,000 and 800,000 SSI and Title II beneficiaries will be cut from benefits over the next year and a half, if plans continue in effect.

We believe this is intolerable and Congress must take immediate action.

Unfortunately jurisdiction over this matter is mixed, shared as it is, between your subcommittee and the Subcommittee on Social Security. A recent bill—HR 5700—goes some way to address the problem but not far enough. I urge you to hold hearings on HR 5700, for it affects SSI just as it affects Title II, and investigate the disability program practices of SSA in some detail. Certainly HR 5700 is incomplete without addressing the impact it has on SSI; and we feel strongly that there are some provisions of that bill which must be further scrutinized.

I want to thank you and the committee for receiving my testimony today. I hope my union will be welcome in the future to express its point of view. We believe we have expertise and experience to offer in your deliberations that you can get from no other source.

Chairman FORD. Thank you, Mr. Harris.
Mr. Glancy.

STATEMENT OF MIKE GLANCY, ON BEHALF OF THE NATIONAL ORGANIZATION OF SOCIAL SECURITY CLAIMANTS REPRESENTATIVES

Mr. GLANCY. Thank you, Mr. Ford.

My name is Mike Glancy. I am a paralegal with the Legal Services Office in Wilmington, N.C., where I have worked for the past 6 years as a social security and SSI disability representative. I am appearing today as a representative of the National Organization of Social Security Claimants Representatives to discuss the two proposals made in the 1983 Reagan administration budget regarding the tightening of the SSI disability rules.

I might say before discussing those two proposals that in the 6 years I've been working with legal services most of my work has involved SSI applicants, and my work involves a good deal of study of the SSI disability process. In fact, I have written a handbook that is used by private attorneys in our area and many areas of North Carolina and three or four other States, so I am aware of the disability process and its current impact on individuals seeking disability under the SSI program.

The Reagan administration proposes to limit the disability evaluation process to "objective factors," meaning strictly medical texts. They will not, as they do now, under social security and SSI rules, consider an individual's age, education and work experience. As we have already heard, these factors are of immense importance in the consideration of an individual's disability because these individuals that we are talking about, SSI applicants, are for the most part over 50, many of whom are over 60. If they were healthy individuals and out of work they would have a difficult time finding employment, particularly in today's economy.

But let me talk for a moment about the category of people that we are talking about here. SSI applicants have to be over 65, blind, or disabled in order to get any benefits. It has been my experience in working primarily with SSI applicants that the average applicant is around age 54, is illiterate to semiliterate at best, has at most a seventh grade education and has limited skills, primarily due to the fact that because of their education and work background or education and training they do manual labor.

In my area of North Carolina that Governor Hunt alluded to we have principally farmworkers applying for SSI benefits, domestics and people of unskilled work backgrounds. What happens then when this individual who has worked 35 years or better in the fields—tobacco fields of North Carolina—can no longer work in that capacity because they have a breathing disorder or a chronic arthritic condition of the back or the legs? All of these jobs require routine stooping, bending, lifting of heavy weights and require a good deal of general strength and stamina. When that individual cannot continue at that employment due to a long-term illness or injury, that individual is effectively disabled and out of the workforce. There is no other place for that individual to turn.

The savings that might be realized by the enactment of the Reagan administration proposals will come at a devasating cost, a cruel cost to these individuals who have nowhere else to turn.

This individual, who is 54 years old, more than likely has no children at home and therefore cannot get AFDC payments or support through a welfare program. North Carolina in most parts, particularly in my area, has no general assistance. You cannot get unemployment benefits usually for a short period of time. Usually you cannot get those because you have to be ready and available to work. So where does this individual who cannot perform his manual work turn? To the SSI program.

Well, if we enacted the Reagan proposals and adopted the strict medical test, here is my experience with that. There are two phases of the administrative review process, the initial consideration and reconsideration levels. These two phases pretty much use a medical standard only. They disregard for the most part age, education, and work experience. At those two levels we have from a 75- to 90-percent denial rate of SSI disability applicants. It is only when the individual perseveres and goes on to a hearing before an administrative law judge who considers age, education, and work experience that the reversal rate or the approval of benefit rate goes up, the 50- or 60-percent reversal of these earlier denials.

Chairman FORD. Excuse me. Out of the 90 percent of the denials, what is the reversal rate at the administrative law judge level?

Mr. GLANCY. Fifty to sixty percent. In our area it is about 50 percent because the judge has to look at this person, consider his age, education, and work experience.

Under current regulations they have standards called the medical-vocational standards that consider age, education, work experience, that give a break, as it were, to the older individuals who are in the 54 to 65 category because they recognize this person who cannot do the usual work; is not going anywhere else. This person is out of a job forever. There is nowhere else to turn. They are not going to be retrained. They cannot be retrained because of the disorder. There is nowhere to turn for benefits.

So we have this 75- to 90-percent reversal rate—I mean denial rate at the first two levels. Let me give you an idea of how strict the medical standards are.

These regulations, these standards, are called the listing of impairments. Take, for instance, an individual like the man I am representing now who is 55 years old and has a severe breathing disorder. That man cannot walk through the fields, the tobacco fields cropping tobacco, because he has shortness of breath. He is chronically weak. He just cannot go on.

Social security looked at the medical information from the pulmonary function studies, which are the chief tests to determine breathing capacity. They looked at two values on those standards. To get disability under social security or SSI you have to have 20 percent of predicted breathing capacity on these two values. The American Medical Association, taking those same two values, considers anyone with 55 percent of predicted to be severely impaired. So you have a 35 percent differential between the experts in respiratory medicine in the American Medical Association and the social security standards.

You are doubtless going to have many people who are not going to meet these standards but who are nonetheless disabled, and their doctors recognize that and report that in their findings.

As I said, if you go to the strict medical standards you are going to wreak a catastrophic hardship on these people who have worked all their lives, who have worked in types of employment that are not covered under title II, the regular social security disability, or because of their low earnings they can only get a limited amount out of that, under $264 out of the title II disability program.

These people are working people who have worked all of their lives, contributed to this country, and bang, now they cannot do their jobs. They cannot make their contribution. And these proposals turn the Government's back on these people and just forget them.

The other proposal is to require an individual to show that his or her impairment will last for 24 consecutive months. Under current law it is 12 months. This proposal too will have a terrible impact on individuals for a number of reasons, one of which is it denies the individual who has injured himself on the job, for instance, assistance in this 12-month period when he is trying to rehabilitate and recover from this disorder. Many doctors will tell you that if a person has a severe break of his leg or suffers a severe back injury or has a heart attack, it is hard to predict how long that person will be out of work. But by the time the person goes through the administrative process and gets to the hearing level, it has usually been 12 months. So that 12 months' durational requirement has been overcome, and the judge can go on and grant benefits.

But again, at the first two levels, the initial review and reconsideration review, they routinely deny cases because an individual has not been out of work for 12 months at the time that case is being adjudicated. They do not rely, in most cases I've found, on the doctor's prognosis. They ignore that routinely. They are looking to see how long that person has actually been out of work, and it is only persevering individuals who go on to the hearing level and find that it has been 12 months that overcome that durational requirement. If you make them go for 24 months, most people would be denied even at the hearing level because of that impediment, durational impediment.

The suffering that goes on in those 12 months will be magnified in the 24-month period. We are not talking about people with extensive resources. We are talking about farm laborers and domestics who have meager resources, meager savings. In 3 or 4 months at best they have exhausted those resources, and as I have said, they don't have anywhere else to go for money because there is no other source.

They do not have a disability program from their job or job-related program to go to. They are out. They are borrowing, they are doing something else. I have an unfortunate situation now of a man who has been in the hospital three times in the last 3 months. The doctor says if you don't stay on this medication, sir, you are going to die. He says what am I going to do? I don't have any money, I don't have any medicaid—because medicaid is tied to SSI entitlement.

Now, he went out and wrote a bad check and now he is in jail. He will get support there but that is the only place he can get support. But that is the type of suffering, the type of hardships and the choices we are making people face.

So I again say the 24-month period will just have a terrible impact on individuals. It will make them prolong the wait to get a meager sum of money. We are talking $264 in SSI benefits, and it will deny a lot of individuals the resources to get back to work, to have something to live on while they are rehabilitating themselves and recovering.

That is all I have to say. Thank you very much.

[The prepared statement follows:]

STATEMENT OF MICHAEL L. GLANCY, PARALEGAL, LEGAL SERVICES OF THE LOWER CAPE FEAR, WILMINGTON, N.C.

INTRODUCTION

Mr. Chairman Ford, my name is Michael Glancy. I am a Paralegal with Legal Services of the Lower Cape Fear, located in Wilmington, North Carolina, where I have worked as a Representative of Social Security and Supplemental Security Income disability claimants for the past six years. Over the past two years, I have worked as a consultant to the private bar in our eight-county service area and in three other areas of North Carolina, training attorneys in Social Security/SSI practice and procedures. In conjunction with my work with the private bar, I have produced a Manual on Social Security Law and Social Security Practice. This Manual has been used in North Carolina as well as in Pennsylvania and other states. I am a past member of the Executive Board of the National Organization of Social Security Claimants' Representatives (NOSSCR), the group I am representing today, and have devoted a good deal of time to the study of the process by which Social Security handles SSI disability claims. In the six years I have been working with Legal Services, I have spent 90-100% of my time working with SSI disability claimants, and learning in keeping current with the Social Security regulations regarding Title II and SSI disability.

Learning the disability standards and being able to apply these standards to the particular situation of an individual SSI claimant is my foremost concern and responsibility as a disability representative. My work has involved me in the lives of hundreds of individuals in Southeastern North Carolina. That involvement has convinced me of the importance of the SSI program and its continued existence. My comments today will address the impact of the Reagan Administration's 1983 proposals for altering the standards for entitlement to SSI disability benefits. In my remarks, I will focus on the human side of the impact this program has on the lives of disabled individuals and the potentially devastating impact the Reagan proposals will have on the program and the people that so desperately need this program.

THE REAGAN PROPOSAL TO EMPHASIZE THE "MEDICAL FACTORS" IN DISABILITY CASES

The Supplemental Security Income disability program under Title XVI of the Social Security Act was created in the early 70's to replace the federally funded, state administered, disability programs for the poor disabled worker who received minimal disability payments through the Social Security Title II program, or who was not eligible at all for Title II disability protection because of the individual worked as a farm laborer, domestic, or in another form of employment in which the employer paid no Social Security taxes on the worker.

To qualify for SSI disability benefits, an individual must be blind, disabled, or aged (65 or older). The standards for determining eligibility to SSI as a disabled individual are the same standards used under the Title II disability program of the Social Security Act. That is, a claimant for disability benefits must show an inability to perform substantial gainful activity by reason of any medically determinable physical or mental impairment expected

to last a minimum of twelve months or lead to death. As the SSI regulations are now constituted, a claimant can establish entitlement to disability benefits by showing medical evidence that he/she is afflicted by an impairment that produces significant work-related limitations that prevent that individual from performing his/her usual work and which are likely to prevent the individual from performing any other form of labor.

To evaluate these claims, Social Security relies on the medical standards, known as the Listing of Impairments, and the listing of medical/vocatonal guidelines. The Listing of Impairments--the strict medical criteria--are relied on almost exclusively in the first two administrative levels of review in both SSI and Title II disability claims. This strict reliance on medical criteria alone has resulted in a 65 to 90% denial rate at these two administrative levels known as initial review and reconsideration. In my state, 70 to 85% of initial SSI and Title II disability claims are denied. The rate of denial escalates to about 90% at the reconsideration level. As I indicated, this high denial rate results primarily from a strict reliance on medical criteria alone, and the refusal of the examiners at these two levels to carefully consider the claimant's age, education, and work background and carefully determine whether these factors in conjunction with the claimant's medically documented disorders preclude the claimant from engaging in their prior work and other forms of gainful employment.

These denial rates indicate that many people who in fact cannot perform their past work due to their impairments cannot produce medical documentation demonstrating that their impairments fall squarely within one of the Social Security Administration's Listing of Impairments. This is the standard that the Reagan Administration asks be imposed on SSI claimants. Let me tell you a bit about the SSI claimants I represent and who I feel are representative of the population of people seeking SSI disability benefits.

The average SSI client I represent is 54 years of age, is illiterate or semi-literate, has no better than a seventh-grade education, and has worked in an unskilled manual laborer position for most of their life. Usually, these folks have more than one impairment, but none of the impairments individually meets the medical criteria found in Social Security's Listing of Impairments. The individual usually has arthritis affecting the back and another major portion of their musculoskeletal system and often has either a heart condition or a breathing condition. Although you probably are well aware of the restrictive nature of the Listing of Impairments, allow me to tell you that it is my experience that a significant proportion, perhaps 75-80% of the people I see, would not qualify for disability benefits relying strictly on the medical criteria in the Listing of Impairments. Allow me to give you an example of the restrictive nature of these listings:

> The Social Security regulations for evaluation of respiratory impairments require that two values from pulmonary function studies show that a claimant's breathing capacity is 20% of predicted for an individual of the claimant's age and height. Whereas, the American Medical Association Guide to Evaluation of Pulmonary Impairments classifies an individual with values on pulmonary function tests at 55% of predicted as being severely impaired.

Apply that information to the situation of a 63-year-old man I now represent in a SSI disability claim, who has worked all of his life "cropping" tobacco in the tobacco fields of southeastern North Carolina. This man is semi-literate, has a seventh-grade education and worked only as a tobacco cropper for the past 30 years. This man has a breathing disorder which will not allow him to walk in the hot dusty fields of this region for more than 15 or 20 minutes at the time without taking an extended break. In addition to his breathing problem, he has arthritis of the spine and knees, causing him considerable pain when he bends, stoops, or lifts weights of more than 10 pounds. Neither of these problems meets the Listing of Impairments. His claim was denied as his pulmonary functions studies show that he still has 40% predicted breathing capacity, and while x-rays show that he has arthritis of the spine and knees, the presence of arthritis, though limiting in terms of presenting functional restrictions that would prevent this man from performing the heavy work of a farm laborer, is not evidence enough of a disabling orthopedic disorder under the medical criteria.

As I previously indicated, this man's breathing disorder, though severe enough to convince a pulmonary specialist that he is disabled, does not meet Social Security criteria for establishing disability due to a breathing disorder, and the Listing of Impairments for evaluation of arthritis requires that the claimant be grossly deformed as a consequence of the arthritis before he can be found disabled by virtue of his arthritic condition. Many, many folks do not meet Social Security's medical criteria. I think you can see why so many are denied at the first administrative levels where these standards are relied on. Yet, when the persistent SSI claimant seeks a hearing where an Administrative Law Judge will consider age, education and work experience and the limitations the claimant's disorders impose on his ability to work, a significant portion, 50% of those who appeal, are approved for benefits. Why is that?

Take the case of my 63-year-old farm laborer; he has two disorders that are painful and which deprive him of his strength and energy to perform the arduous work of a manual laborer. Relying strictly on the medical criteria, this man would get nothing in SSI benefits. Examining his situation as it should be examined in terms of the limitations his disorders impose upon him, his schooling, literacy, and capability of performing other forms of employment, it is clear why the Administrative Law Judge awarded this man benefits.

This man is just one of thousands of SSI applicants who worked all his life and finds that at the time when he can no longer perform his usual work that he is not covered under Title II of the Social Security Act, or that his Title II benefits are so low that he needs a supplement to exist. The Reagan Administration's proposal for limiting review of SSI disability claims to medical factors alone is unduly harsh and brutal. It will result in needless additional suffering on the part of individuals like the man I spoke of above and will deny altogether badly needed financial support to a class of poor people that I feel is more helpless than any other group in our society. The Reagan proposals attempt to dehumanize the disability system. The proposals reduce every claimant to a nameless digit by ignoring the differing effects of a disease on different people and by ignoring the

claimant's age, education and work experience. These proposals indicate that the Reagan Administration sees no difference in an illiterate farm worker with a bad back and a breathing disorder from a twenty-five-year-old college-educated accountant with a bad back and breathing problems. This view is simplistic and unrealistic.

THE REAGAN ADMINISTRATION'S PROPOSAL TO DEFINE DISABILITY AS REQUIRING THAT AN IMPAIRMENT EXIST FOR 24 CONSECUTIVE MONTHS

Under existing law, an applicant for SSI disability benefits must show that his/her impairment has lasted for 12 consecutive months or is expected to last for 12 consecutive months in order to prove eligibility to disability benefits. By requiring that the impairment last for 12 consecutive months, the law places the burden upon the individual claimant for finding an income substitute during the 12 months the claimant is out of work. During the 12 months the SSI claimant is out of work, that claimant, who remember has worked in occupations that provide minimum wage at best, quickly depletes the meager savings he may have accumulated over the years and then quite often finds himself in the position of having to live off relatives, or borrow money in order to survive. These individuals do not have the luxury of a disability plan through their employment on which they can rely for income until SSI comes through; nor can they rely on welfare or other forms of public assistance, as, at least in our area, you cannot get welfare unless you have children living in the home. Most of these individuals do not have children in the home at the time they become disabled, and our region does not have a general assistance program from which a claimant could derive some assistance in this 12-month waiting period. Usually by the time the claimant reaches the hearing stage, his/her impairment has lasted for 12 months and the durational requirement for entitlement to disability is no longer an impediment.

However, you should be aware that at the first two administrative levels of review--the initial review and reconsideration--many claims are denied because at the time the claims reach the disability examiners at these two levels, the claimant has not been out of work due to an impairment for 12 consecutive months. Social Security will quite often discount the statement of a treating physician that the claimant's disorder is expected to last 12 months as mere speculation and commonly relies on the passage of time as the best indicator of whether the claimant's disorder will meet the 12-month durational requirement for entitlement. That is, if the claimant has not been out of work for 12 months, Social Security will often deny the claim despite what the claimant's doctor says about the expected duration of the impairment. If you adopt the Reagan Administration's proposal for extending the duration requirement to 24 months, you will place an onerous hardship on these individuals who have pitifully few resources upon which they can rely in the best of times. I sincerely believe that if the durational requirement is extended to 24 months, that Social Security will require an SSI applicant to be out of work for 24 months due to an impairment before they will grant benefits as they will continue to discount the doctor's prognosis as they do today.

Allow me to offer an example of the present impact of the 12 month durational requirement. Presently, I am working with a 55-year-old man from rural North Carolina who has severe hypertension. Because of chronic weakness and fatigue and

other manifestations of hypertension, he cannot work as a farm laborer, which work he has performed for the past 35 years. His SSI disability claim has been denied at the first two administrative levels because he has not been out of work due to his impairment for 12 consecutive months, and his impairment is one that does not fall squarely within the Listing of Impairments. Hence, he has no income and no money to purchase his needed medication or medical care. Last month, shortly after he left the hospital for the third time in as many months, he purchased some needed medication by writing a check. He knew he had no money in the bank, but he also knew that he had to have that medication. The check bounced, and my client is now in a North Carolina penal system. This case gives you an example of the hardships that SSI clients experience while they wait these 12 months for disability assistance. Extending the 12-month durational requirement to 24 months will increase the hardship on these helpless people.

Another consideration you should bear in mind in your deliberations on the Reagan Administration's proposal for extending the durational requirement is that many SSI applicants suffer from diseases or injuries that will keep them out of work for 12 months but which can be reasonably expected to improve within 24 months. The SSI disability program can provide them with short-term assistance in meeting this crisis in their lives that has left them unable to earn a living. SSI assistance can also provide a source of support during the time of the individual's rehabilitation from the effects of the injury or illness. Many doctors now find it very difficult to estimate how long a person will be out of work due to a heart attack or injury to the musculoskeletal system. As a consequence, the physician often indicates to the Social Security Administration that it is impossible to estimate the duration of the disease or injury, and Social Security very often denies the claim. If we require that a claimant's disorder last for 24 months, we will be depriving that individual of needed funds on which he can make it through a period of recovery and rehabilitation from a disease or injury that has forced them out of the work force for 12 months.

SUMMARY

My recommendation to this Committee is that it not adopt the recommendations of the Reagan Administration concerning reliance on medical factors alone in deciding an SSI claimant's eligibility to disability benefits and for extending the durational requirements for entitlement to disability from 12 months to 24 months. Both proposals would have a harsh and even brutal effect on an already impoverished class of individuals who can no longer work. Our system and way of life has grown and thrived because of its respect for the individual and the work and contribution the individual makes to the growth of this country. The greatness of this country will not be measured on how it protects the rights of its mighty citizens but rather how it works to protect and respect the rights of its weakest members. I hope that you will show as you have in the past that you care for the person who has labored for this country and will not turn your back on that laborer whose body will no longer allow him to perform his labor.

Chairman FORD. Mr. Glancy, talking about that 90 percent denial rate from the claimant's standpoint, and the reversal of some 50 to 60 percent after the administrative law judges review these cases, are you saying that the State disability review offices do not take into consideration those factors like the lack of education, age, work experience and whatnot?

Mr. GLANCY. I find as a practical matter, they do not. If they do, they give it short shrift in their examination. They look principally to the objective medical factors at the first two levels and base their decision largely on the medical evidence, whether that falls in one of their strict guidelines.

Chairman FORD. Strictly on the medical evidence and the administration is now proposing to tighten the SSI review factors?

Mr. GLANCY. What the administration is proposing is saying to the administrative law judge and every level of the review process, you ignore it, too. You ignore age, education and work experience, and we just want you to look at the medical standards alone.

I might make another point here. This denies the differing effects of diseases and injuries on different human beings. It is saying pretty much that the common laborer, the person who does stoop labor all of his life is looked at in the same way as an accountant. This person with a breathing impairment who cannot go to the fields in the morning, do the heavy labor because of the breathing impairment is looked at the same way under the Reagan proposals as the accountant who has a breathing impairment who may well be able to go on and do something else or deal more effectively with a less strenuous job of accounting with his breathing impairment.

But the stoop laborer is not going to be able to do anything else and is not going to be able to continue to work with this breathing impairment, so the Reagan proposals try to reduce everyone to a digit. It dehumanizes a process that should not be dehumanized; that has to have a face to it, have a personal human face to it.

Chairman FORD. What about the other part of the proposal by the administration on tightening the SSI disability rules, that the impairment last for at least 2 years rather than the present 1 year?

Mr. GLANCY. Well as I said, I think that presently at least, at the first two levels and I think pretty much throughout, that they look to see has this individual already been out of work 12 months. If that individual has not been out of work 12 months, they will commonly say that the doctor's prognosis that the person will be out 12 months is "speculation", conjecture, and we want to see that person out of work 12 months before we will approve the claim.

Social security often says that they expect improvement within 12 months if the person has not been out of work within 12 months, and I think they will do the same thing with 24 months. They will say well, you have to be out of work 24 months to show us that this thing is going to be disabling to meet these guidelines. With a 24-month requirement, I can see people that I represent begging, depriving all of their other relatives of what meager resources they have. I think it would work a gross, gross hardship on these already impoverished people.

Chairman FORD. I think, Mr. Hacking, in your written statement you indicate that your organization is in opposition to both administration proposals as it relates to the SSI disability rules. Is that correct?

Mr. HACKINGS. Absolutely, Mr. Chairman.

Chairman FORD. Mr. Rousselot?

Mr. ROUSSELOT. Thank you for being here. Your statements I know will be helpful to this committee. Mr. Glancy, on our sheet here you are listed as also representing the National Organization of Social Security Claimants. Is that correct?

Mr. GLANCY. Claimants representatives, yes.

Mr. ROUSSELOT. How many are there nationally?

Mr. GLANCY. I don't know how many people we have as members now. It is growing rather rapidly. It consists of lawyers and advocates assisting people like SSI disability applicants.

Mr. ROUSSELOT. You don't know how many you have in your group?

Mr. GLANCY. I think we have better than 1,000.

Mr. ROUSSELOT. 1,000. Have you had a chance to look at H.R. 5700?

Mr. GLANCY. Yes, I was here testifying about 2 weeks ago.

Mr. ROUSSELOT. Yes, I know you were. Have you had a chance to look at it since we finished the final product?

Mr. GLANCY. I have not seen the marked-up version. I got it today but I have not really studied the final version of H.R. 5700.

Mr. ROUSSELOT. I am sure you will be able to give us your comments from your vantage point on how that will affect people on disability.

Mr. GLANCY. H.R. 5700? Would you like for me to address it specifically? Do you have a specific question?

Mr. ROUSSELOT. No. I just would be interested to know what you think the impact of that legislation, if it passes the full committee, will be.

Mr. GLANCY. I have some grave reservations about a couple of the portions of H.R. 5700 as they relate to the closing of the record at the reconsideration level, and the blockage of remands from Federal court.

Mr. ROUSSELOT. I am sure you didn't come prepared today to talk about that, but since you were here and you are on the firing line down there with people who are dealing with this problem, I just thought you might want to comment on it. I wasn't expecting you to be prepared to answer.

Mr. GLANCY. I would be prepared to go on and talk about it. My particular problem with the H.R. 5700 provision that deals with the closing of the record at reconsideration is that it is going to tie the hands of the administrative law judge and create further delays for the poor claimant who, as I said, has no resources and cannot afford further delays.

By that I mean a person who comes through the reconsideration process and relies pretty much on the Social Security Administration to gather the medical information on the elderly and the disabled. Well, social security tells them to do that. They go back to the Social Security Administration, they tell them to rely on social security again, they get denied, many times on the strict reliance

of these medical factors, many times because the doctor didn't respond to social security, and many times for other reasons.

But it is often after that process that they get someone like me to help them, and we develop the record to get to the judge.

Mr. ROUSSELOT. You don't get into the process that early?

Mr. GLANCY. We don't get into that process that early as a rule because we found that it is almost useless at those two levels because of the refusal of social security to look at factors of age, education, and work background.

Mr. ROUSSELOT. Why is it useless?

Mr. GLANCY. The refusal of the State agencies really to look at all of the aspects of a person's situation. As I pointed out, they look primarily at the objective medical standards alone. They often ignore doctors' statements concerning the limitations this person suffers. They often ignore age, and education.

Mr. ROUSSELOT. The State agency workers or the local social security workers?

Mr. GLANCY. No, the State agency workers are in a different position. That is the group that I am talking about that ignores this sort of thing. It is not until you get to the judge who has to look this person in the eye and watch them limp in and discuss the impairment, that these factors come into play.

Mr. ROUSSELOT. In the law we wrote, we tried to encourage the local agency to have an eyeball-to-eyeball meeting with the recipient.

Mr. GLANCY. My problem with that, to be honest with you——

Mr. ROUSSELOT. Wouldn't that help part of the problem?

Mr. GLANCY. I am not sure that it would help because these individuals, one, if it operates the same way as the medicaid review process operates in North Carolina where examiners employed by the same agency that has denied the claim at the first two levels conduct these hearings, they have very little latitude in reversing the previous denials, so it is kind of like a rubber stamp of the earlier denial.

You know, John Doe who was the hearing officer at the reconsideration level works with Jane Doe who made the decision and is under the supervision of that whole operation. They operate under the same standards and under the same pressures as the previous levels operate under. And they don't have, I am afraid, as I have seen in the medicaid program, the discretion and freedom that an administrative law judge has to review and analyze all of the various elements of the case.

That is my feel for H.R. 5700, and when you get to that stage and it goes to the judge, if anything else is offered after that point it has to be remanded back to reconsideration, and I can see this poor claimant just being ping-ponged back between reconsideration and the hearing level because there is new evidence here that the judge cannot consider so he has to send it back.

Mr. ROUSSELOT. How much new evidence do you really get between the time——

Mr. GLANCY. I find they get quite a bit of new evidence really because Social Security usually has a time limit at the first two or three levels. If they don't get a report from the doctor, the hospital records within so many days, they close that case. It is denied there

and sent back to the district office where these folks have to see it. I jump in and I get that stuff. I go to the hospital and get it myself if I have to. Or I go out to the doctor and sit in his office and say hey, I need this information. This person, you know, needs some help here.

Mr. ROUSSELOT. Are your services free or do you charge?

Mr. GLANCY. My services are free.

Mr. ROUSSELOT. Some others are not?

Mr. GLANCY. I work out of a legal services office but I have developed a legal referral program in our eight-county area with four others in North Carolina whereby we refer most social security cases where you can get a fee to private attorneys. I serve as a consultant to those attorneys as well.

Mr. ROUSSELOT. I thank you for your comments. My time has expired but I was interested in the fact that you represent many of the claimants at the local level, and I would be interested in your thoughts on what we have done in this bill, H.R. 5700. Thank you, Mr. Chairman.

Chairman FORD. Thank you, and I would like to thank each member of the panel for appearing today.

Mr. GLANCY. I have a written statement that I think was delayed in the mail. But it will arrive today, I hope. I hope that it will be submitted for the record. Is it here now?

Mr. ROUSSELOT. It has your name on it and it is dated April 20.

Mr. GLANCY. That is it.

Chairman FORD. Your statement will be made a part of the record, and we thank you very much once again.

The next panel is the Center for Community Change, Mr. Leonard Lesser, general counsel; and the Center for Social Welfare Policy and Law, Ms. Adele Blong, associate director. As you come forward I would like to state that we are going to take a 5-minute break and when we resume we are going to work straight through because a joint session of Congress is scheduled for 3 o'clock today. We are, in fact, going to try to complete all of the witnesses who were scheduled to appear before the committee today.

I would like to take a 5-minute break.

[A short recess was taken.]

Chairman FORD. The subcommittee will come back to order. At this time, the Chair will recognize the two witnesses at the table, Mr. Lesser and Ms. Blong. Mr. Lesser.

STATEMENT OF LEONARD LESSER, GENERAL COUNSEL, CENTER FOR COMMUNITY CHANGE

Mr. LESSER. Thank you, Mr. Chairman, I appreciate the opportunity to present the views of the Center for Community Change on the administration's proposed budget cuts and other proposed changes before this subcommittee. I would ask that my statement be made a part of the record.

Chairman FORD. It will be made a part of the record.

Mr. LESSER. And I will try to summarize it. I would like to note for the record that Prof. Mitchell Ginsberg of Columbia University who collaborated with me on this statement and who could not

appear today has asked that the record show his concurrence in the statement.

Mr. Chairman, I have not attempted and do not intend here to go into the details of the proposals made by the administration. The committee prints both of February 18, 1982 and March 9, 1982, give data and facts on the programs within the jurisdiction of this subcommittee, and details on the proposed changes recommended by the administration.

What I would like to do is highlight some of the considerations that I think that this subcommittee has to take into account in considering the proposed cuts in the administration's 1983 budget. First, I think it has to be kept in mind that the cuts which are now proposed in AFDC, which amount to some $2 billion and which are projected to eliminate or reduce payments to some 900,000 households come on top of cuts made last year in the Omnibus Reconciliation Act which affected some 750,000 households.

Second, I think that it is important to note that while the jurisdiction of this subcommittee is limited to AFDC, SSI, unemployment compensation, et cetera, yet there are many other programs that have been cut and which affect the same families that are covered by the programs within this subcommittee's jurisdiction. Among them are medicaid, food stamps, other nutrition programs, housing assistance programs and the like, in all major reductions have been made.

Many of these same families are affected by those cuts who will be affected by the proposed cuts in AFDC and the other programs within the subcommittee jurisdiction.

Further, I think that it is also important to recognize the question of equity and the disproportionate burden which has already been placed on the poor. In doing so, I am sure this subcommittee is aware, as members of the Ways and Means Committee, that the tax cuts which were enacted last year provide minimal reductions to the lowest income groups and substantial gains to the families at the higher end of the income spectrum.

A recent study which I cite in my statement by A. Gary Shilling & Co., an economic consulting firm in New York, estimates that in fiscal year 1982, the top 5 percent of all income recipients, those with incomes of $47,000 or more will gain more than $9 billion as a result of the budget and tax cuts, while roughly 30 percent of the families who have incomes of $11,000 or less stand to lose nearly $8 billion.

This basic lack of equity and the disproportionate burdens which have already been placed on the poor must be a factor in considering proposals for change.

I don't mean to suggest that the current programs should be immune to change and should not be examined. But in looking at proposals for change, I do think that such proposals must be judged not on whether or not they will effectuate budget reductions, but on whether or not they are consistent with the objectives of the programs and the goals of this society.

With that in mind, we see little logic or rationale for removal of almost all incentives to work poor people to seek jobs or to continue to work, if one of our basic aims is to encourage people to work and become self-sufficient.

The recent report of the Center for the Study of Social Policy, which I know has been called to the attention of this subcommittee, found that AFDC working mothers earning the average wage in the 24 States in which 65 percent of AFDC working parents reside would have less disposable income after working than the AFDC mother who does not work at all.

The committee print of February 18, also points out the impact of the changes on the working poor of the earnings disregard provisions made by the Omnibus Reconciliation Act of 1981.

It is because of these anomalies, Mr. Chairman, that we support H.R. 5791 offered by you which would, among other proposals, revise the earnings disregard, repeal the 4-month limitation, and the gross income limitation, all of which were enacted in the 1981 Omnibus Reconciliation Act.

I believe that the administration's 1983 proposals with respect to welfare recipients who are able to work are not a substitute for H.R. 5791. I am talking about the proposals to abolish the WIN program and substitute in its stead a requirement that all States adopt a discredited "Workfare" or community work experience program.

The evaluations of mandatory workfare programs have repeatedly shown that workfare jobs rarely offer the training which would give participants an opportunity to fill competitive private market jobs. I think the fact that most States rejected the option to enact workfare programs, which was offered in the Omnibus Reconciliation Act of 1981, is a recognition of the deficiency in these programs. Nor would the recommendation in the Budget Act that applications for AFDC not be acted on during a period of job search, which is now required, do much to help or give incentive to work.

Such a proposal can only be justified as adding a hurdle which will reduce welfare costs by denying benefits to families with children, despite their need for assistance to meet current needs during the period they are searching for jobs. This is particularly true in a period when unemployment measures over 9 percent, when initial claims for unemployment compensation are increasing, and when even workers with skills and experience are having difficulty finding work.

I point out briefly that as a result of the title XX cuts, which has already resulted in many States closing day care centers or reducing the number of children who can be served, the possibility and the opportunity for work for parents of AFDC families to work is further diminished.

For those reasons, we would urge this committee, at a minimum, in lieu of accepting the administration's 12-percent cut in social services, to enact H.R. 5971 which will increase title XX funds to $2.6 billion in fiscal year 1983, to $2.8 billion in fiscal year 1984, and $3 billion thereafter.

We also support the concept contained in H.R. 5226, which was introduced by Mr. Gradison to protect the working poor who lose eligibility for medicaid because of changes in the earning disregard. We believe, however, that such protection would better be afforded through the continuation of medicaid coverage which is proposed in H.R. 5199, a bill introduced by Mr. Waxman.

Finally, I would like to mention briefly the two proposed changes in the unemployment compensation program. In view of the tremendous cuts that were made in last year's omnibus reconciliation, there was little left to cut in the unemployment compensation program. Yet, I believe the two changes which are proposed in the fiscal year 1983 budget illustrate cuts whose only purpose is to reduce budget outlays.

How else can one justify rounding a benefit to the next lower dollar. Certainly, it is just as rational to raise it to the next higher dollar, or continue the current practice of many States, a practice embodied in the U.S. income tax law, of lowering it to the lower dollar when the benefit is computed at less than 50 cents, and raising it to the next higher dollar when the benefit is more than 50 cents.

Similarly, the proposal which would deny unemployment compensation benefits to individuals released from the military because of inefficiency is counter to all of the practices of States in administering unemployment compensation laws. From the earliest days, workers who are released because of inefficiency have been awarded unemployment compensation even though the employer may have been justified in releasing the worker.

I believe that this committee, rather than considering cuts of this nature, should consider the proposals in H.R. 5284 which would repeal those cuts enacted last year and the proposal in H.R. 6085, which would provide an additional 13 weeks of benefits to those unemployed individuals for whom there are no jobs.

In conclusion, I would urge that the subcommittee recommend direct rejection of the cuts proposed by the administration in its 1983 budget. They cannot be justified on the basis of strengthening program objectives. They will only add to the existing inequities under which the elderly, children, the poor, the handicapped, the unemployed, and other disadvantaged have been made to bear a disproportionate share of budget reductions, and have benefitted little from tax reductions and other programs aimed at strengthening the economy and the well being of Americans.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Leonard Lesser, General Counsel, Center for Community Change

I appreciate this opportunity to present the views of the Center for Community Change on the Administration's proposed budget cuts and other proposed changes in a number of important programs within the jurisdiction of this subcommittee. These programs, which include AFDC, SSI, unemployment compensation, Title XX Social Services, and child welfare programs, are all part of a national program enacted to protect children, the poor, and American working people against the contingency of lack of income and to provide to them necessary social services. Professor Mitchell Ginsberg, of the School of Social Work of Columbia University, who has collaborated with me in the preparation of this statement, but who was unable to be in Washington today, has asked that I report his concurrence in the substance of the statement.

While the Administration's proposal for a New Federalism plan which would have abolished AFDC, among other programs, has reportedly been abandoned -- at least for the time being -- major surgery is still being advocated in the proposals made in the President's budget for fiscal year 1983.

These cuts which amount to 2 billion dollars, are projected to eliminate or reduce payments for more than 900,000 households. When combined with the program changes made in the Omnibus Reconciliation Act which affected 750 thousand AFDC households, it is clear that families with children who are already poor will have even greater difficulty in securing minimal amounts of food, shelter, clothing, medical care, and other basic necessities.

There seems little need to detail the changes already made and those proposed in the 1983 budget. The Ways and Means Committee print of February 18, 1982, describes the programs within the jurisdiction of this Subcommittee and gives data and background material on the cuts already enacted. The Committee print of March 9, 1982, describes the legislative recommendations proposed in the Administration's 1983 budget.

While the Subcommittee's jurisdication is limited to income and service support programs, particularly those aimed at the unemployed, the poor, the handicapped and other disadvantaged and low-income groups in our society, it must be aware of the other programs which affect many of these families, such as medicaid, food stamps, other nutrition programs, and housing assistance in which major reductions have been made and in which further reductions have been proposed. Many of the same families who will be affected by the cuts in programs within the Subcommittee's jurisdiction will also be affected by cuts in these other programs. The cumulative effect of the cuts on the same families cannot be ignored.

Further, as members of this Ways and Means Committee, you are also aware of the fact that the tax cuts enacted last year provide minimal reductions to the lowest income group and substantial gains to the families at the higher end of the income spectrum. Thirty-five percent of tax cuts accrue to the benefit of households with incomes of $50,000 or more. This group represents scarcely 6% of all taxpayers. At the same time, the 40% of taxpayers with incomes below $15,000 receive only 8% of the tax cuts. Families who fall within the lower end of this latter group are primarily the concern of this Subcommittee.

Taking into account the cuts in both spending and taxes enacted last year, it is clear that the net gains accrue to those who are already well off, while those in the lowest income group have suffered net losses. A recent study by an economic consulting firm, A Gary Shilling & Company, estimates that in fiscal year 1982, the top 5% of all income recipients, those with incomes of $47,000 or more will gain more than 9 billion dollars as a result of budget and tax cuts, while roughly 30% of families who have incomes of $11,000 or less stand to lose nearly 8 billion dollars.

This basic lack of equity and the disproportionate burdens which have already been placed on the poor, must be a factor in considering proposals for additional cuts.

We do not suggest that existing programs should be immune to change. But the changes proposed should have a rational basis consistent with the purpose of the program and the basic goals of our society. The cuts which have taken place and which are being proposed meet neither of these tests.

We see little logic or rationale for the removal of almost all incentives for the poor to find jobs or continue to work if one of our basic aims is to encourage people to work and become self-sufficient. Yet, the recent report of the Center for the Study of Social Policy, which has already been called to the attention of this Subcommittee, found that the AFDC working mother earning the average wage in the 24 states in which 65% of AFDC working parents reside, would have less disposable income after working than the AFDC mother who does not work at all. The Committee print of February 18, 1982, recognizes the impact of last year's changes on the working poor. On page 127 it considers the case of a mother working full-time at the minimum wage. Prior to the enactment of the Omnibus Reconciliation Act of 1981, her monthly benefit was $201.00. After enactment it was $148.00 for the first 4 months and zero thereafter.

It is because of these anomalies that we support H.R. 5791 offered by Representative Ford, Chairman of this Subcommittee, which would among other proposals, revise the earnings disregard, repeal the 4-month limitation, and the gross income limitation of 150% Standard of Need all of which were enacted in the 1981 Omnibus Reconciliation Act.

The Administration's proposals with respect to welfare recipients who are able to work, are not a substitute for H.R. 5791. In fact, they only worsen the problem. Although they may result in budget reductions, they will do little to provide meaningful training, jobs or work incentives to AFDC recipients who are able to work. The abolition of the WIN Program, which is aimed at providing necessary training and securing jobs for welfare recipients

and the substitution in its place of a requirement that states adopt a discredited "Workfare," or more euphemistically labelled, "Community Work Experience Program" will move backwards from the goal of enabling AFDC recipients to secure meaningful jobs. Evaluations of mandatory workfare programs repeatedly show that workfare jobs rarely offer training that gives participants an edge in filling competitive private market jobs. In recognition of these facts, most states rejected the option to enact Workfare Programs which was offered in the Omnibus Reconciliation Act of 1981.

Although employable recipients are now required to engage in a job search, the Administration's proposal that applications for AFDC not be acted on during such period of job search, can only be justified as a hurdle which will reduce welfare costs by denying benefits to families with children despite their need for assistance to meet current needs. This is particularly true in a period when unemployment measures over 9%, when initial claims for unemployment compensation are increasing and when even the workers with skills and experience are having problems in finding work.

The inconsistency between the Administration's specific proposal and the goal of getting people to work, is further illustrated by the cuts in federal funds for Title XX of the Social Security Act. The result of last year's cuts in funding have already resulted in states closing many day care centers or in reducing the number of children they can serve. Whichever the result, some low-income working families are forced to leave jobs in order to care for the children or to pay increased cost for day care thus decreasing their net take home pay from work.

Beyond the work incentive impact, these Title XX cuts have adversely affected services for the elderly, the handicapped and programs in mental health and other services for children. Yet, the Administration has proposed an additional reduction of 12% in Title XX funds.

We would urge that this Committee at a minimum, in lieu of the Administration's proposed cuts, enact H.R. 5971, which will increase federal Title XX funds to 2.6 billion in fiscal year 1983, 2.8 billion in fiscal year 1984, and 3.0 billion thereafter.

We also support the concept contained in H.R. 5226 to protect the working poor who lose eligibility for AFDC and Medicaid because of changes in the earnings disregard. We believe, however, that such protection should be afforded through continuation of Medicaid coverage as proposed in H.R. 5199

In view of the tremendous cutbacks in unemployment compensation made in the Omnibus Reconciliation Act of 1981, there was little for the Administration to propose in this year's budget. Yet the proposals which it has made are prime examples of changes whose only justification is that they reduce Federal expenditures.

On what other basis can rounding the benefit in the next lowest dollar be justified. Similarly, the proposal to deny unemployment compensation to individuals who have been involuntarily separated from the military because of lack of discipline or skill proficiency runs counter to all precedents in existing unemployment compensation programs.

From the earliest days, states have held that the fact than an employer may be justified in not retaining a worker who is inefficient is not a basis for the denial of unemployment compensation.

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In the midst of a deepening recession, with unemployment increasing and more unemployed exhausting their benefits, this Subcommittee should not be engaged in discussions of cuts in unemployment compensation whose only justification is budget reduction.

Rather, it should repeal those cuts enacted last year as proposed in H.R. 5284 and recommend at least the 13 additional weeks of benefits proposed in H.R. 6085. In the last severe recession an emergency program providing up to 65 weeks of benefits for workers for whom jobs were not available was enacted by the Congress.

In conculsion, I would urge that this Subcommittee recommend the rejection of the cuts proposed by the Administration in its 1983 fiscal year budget. They cannot be justified on the basis of strengthening program objectives. They will only add to the existing inequities under which the elderly, the children, the poor, the handicapped, the unemployed and other disadvantaged, have been made to bear a disproportionate share of budget reductions and have benefited little from tax reductions and other programs aimed at strengthening the economy and the well-being of Americans.

Chairman Ford. Thank you, sir.
Ms. Blong.

STATEMENT OF ADELE BLONG, ASSOCIATE DIRECTOR, CENTER ON SOCIAL WELFARE POLICY AND LAW

Ms. BLONG. Thank you.

I have submitted a statement for the record, and in these few minutes I would just try to briefly summarize some of the key points in that statement.

Let me state at the beginning, I don't think it would be unclear but just to be certain that the record is clear, I appear before you as an unabashed advocate for poor people, particularly those poor children and families who must depend upon programs like AFDC and the other income support programs to meet their needs.

I make no pretense of looking at these cuts in any objective or neutral stance. The comments and the perspective that I will offer today are the comments and perspective from the viewpoint of those people who are bearing the effects of the cuts.

I find myself in almost hearty agreement with almost every comment of Governor Hunt this morning. I think certainly his key comment was right on point when he said that the AFDC program was cut enough, perhaps too much last year, and certainly there should be no further cuts of any kind in the AFDC program this year. I would add to that, also, our opposition to the proposed changes in the SSI disability program.

I think, without for the moment getting into the specifics of the proposals, if one looks at just a few of the key facts of the AFDC program and poverty in this country, that is enough of a reason for not making any further cuts.

As detailed in our testimony, the combined AFDC and food stamp benefits for families of 3 in 26 States of this country are less than 76 percent of the poverty level. Let's reflect for a moment on what that means. We have perhaps all of us grown a little too inured to what we are saying when we say the poverty level.

It is a term that we have used so often in the past five, as different bills have talked about benefit levels in relationship to meeting, not meeting, or paying some percentage of the poverty level. But what is this level to which we aspire?

It is, in itself, an inadequate benchmark, something that even its framers don't claim represents anything more but sort of the threshold out of which people might be moving from the depths of poverty into what most of us might still consider poor, but no longer characterized as deep poverty.

The officially declared poverty level this year, as of April 1, is $9,300 for a family of four, and that is the figure that we are talking about. When you contrast that with the Bureau of Labor Statistics' finding that as of autumn 1981, a family of four needed $15,323 to maintain a lower living standard.

Even if one recognizes that AFDC recipients receive medicaid coverage, and unless they are earning would not be paying income taxes, so we take those two numbers out of that amount, and we are still left with a figure of $12,091 to maintain a lower living standard.

When you contrast it with yet one more figure, the initial reports of the 1980 census survey that appeared in yesterday's newspaper in which the census found that the nationwide median income for a family of four in this country was $19,908.

The median income is not and has never been an indicator of the highest level of living. It is a figure that salaries reach and income reaches as the cost of living in a country requires that wages be paid at a level that can allow people to maintain themselves adequately.

So I would ask the subcommittee, as it reflects on these proposals and other proposals that will be brought to you this year and in the coming years, think not just of the poverty level, but to recall always what the poverty level is in relationship to those numbers which most of us find to be more realistic indicators of what a family actually needs for a decent level of living.

In addition to the fact that benefits in so many States are now far below the poverty level, the situation gets worse with each passing moment as State benefit levels fail to keep pace with increases in inflation. The small adjustments that were being made in the food stamp program to somewhat offset that, of course, have not been made in the past 18 months.

We now face the possible threat of not having that adjustment made in October. Even when the food stamp program is updated, that updating in simply the family's food stamp allowance, though it somewhat offsets the cost of living, goes nowhere near meeting the full increase.

So with each passing month, each passing year, those families who must turn to AFDC, turn to a program with a benefit level that is further and further behind what their needs are in relationship to the cost of living in this country.

When we look at the package of proposals that is presented to us, and the amendments of last year, we find a sort of a strange dichotomy in attempting to discern any consistent rationale, any consistent theme.

One the one hand, we see proposals put forth that seem to say that it makes no difference what a family's individual needs are, what their actual needs at that point in time. We see a proposal like retrospective budgeting which the prior witnesses talked of in the context of the SSI program, and as the committee knows, this is also now mandatorily applied in AFDC.

A system that says, if a family's income in a month is below their needs, it makes no difference. We will pay them an amount based on what they had 2 months ago. It makes no difference what their actual needs are.

We see a proposal in the administration's proposals for 1983 that the mother of children over 15 should be eliminated from the AFDC grant, not because she is not needy, but because she could find a job. Again, a theoretical possibility of betting the family situation. The rationale appears to be, it doesn't make any difference that that family is still in fact needy, we will nonetheless eliminate them from the program.

Then, suddenly we turn around and look at the other side of the coin in which the whole approach seems to be, Is there any way in which it can be argued that a family is "better off?" If so, then we

must look at them and say, "You are not actually needy. Therefore, you get less."

This is typified in this year's proposals by the package of proposals to reduce benefits based on a family's living situation, proposals that don't look to what the actual income status is of the family, whether or not they are in fact better off, and secondly don't look to what better off means. That family may in fact be spending as much as is allowed in the AFDC grant for shelter or more, despite the fact that they are living with other individuals in the household.

As the witnesses from Georgia testified, in fact for many families, because of the inadequacy of benefits, the only way that they can hope to manage is by combining in households with others, both in terms of possibly achieving lower rent and, second, because of the support systems that families in our country, and in particular poor families, have learned over generations to provide for one another.

The fact of multigenerations of a family living together, working together, so that an older generation will provide care to a child, so that the mother of the child can go out and work, and can try to better their total family situation.

All of this suggests to us that while many of these proposals are put forward in the guise of trying to determine who is needy and who is not needy, and theoretically to eliminate from the not-needy, there is no such consistent theme. It is simply an attempt to identify as many possible ways to strip the program of benefits as possible, and to come up with whatever rationale fits that particular proposal.

The facts of the AFDC program, the facts of the over 8 million children a year who rely upon the program for the benefits provided to them, for their living situation, in fact, the very nature of the amendments that must be proposed to reduce AFDC costs are, in fact, the best evidence that those people who do qualify for and receive AFDC benefits are needy.

There is no way that AFDC benefits can be further cut without doing severe harm to those families who are already hurting so badly from last year's cuts and, in a sort of a mixed vein, are not hurting as badly as many will in the months to come because, as many other witnesses have mentioned, many of the mandatory cuts imposed last year have luckily, at least for a short time, not taken full effect.

You have some of the largest caseload States like Ohio and New York that have not yet implemented retrospective budgeting and monthly reporting. The harm that is going to come to the families in those States when those provisions finally take effect is going to be enormous.

The numbers of families who will be denied aid because their monthly reporting form is lost, the numbers of families who will go for months without an adjustment of their grant when they lose their job, will all be intensified by the position that the Department of Health and Human Services is now taking that a State may not, even if it wishes to, provide supplementation in months when a family is receiving a benefit below needs in a retrospective budgeting system.

The Department has taken the position that if a State, out of its own money, provides supplementation to such a family, the State must count that money as income to the family and, therefore, further reduce their benefits in subsequent months. Obviously, none of us could argue that that makes sense for anyone. Therefore, no one is suggesting that a State should provide supplementation on that basis.

What is critically needed is a response to that problem, a response that hopefully would restore Federal funding for supplementation. At the very least, if it does not do that, it should at least permit the States, that have the ability to do so, to provide supplementation out of their own funds.

In closing, I would like to say that we are heartened to be be able to come here today to support the chairman's bill. The two principal issues that you address in that bill, the 150-percent cap and the 4-month limitation on the earned income disregard, as you have recognized, are doing the most critical damage to those families that are trying to do two jobs, to both work outside the home and to bring up their children, often without any help, in a single-parent family. The elimination of those two provisions would go a long way toward curing the worst harm.

That bill, together with an adequate provision for continuation of medicaid, would in fact be the helping hand that many families need, not to give them an incentive to work because the people that I represent are like you and I and everyone else, they want to work. They don't need an incentive.

They understand that their life will never get better in any large measure unless they can enter into the employment market and the mainstream of this country. But they need help to work. The extra money that comes from that earned disregard is the money that helps them to meet the additional burdens that they take on to perform the two jobs of raising their children alone and working outside the home.

It is for that reason that we heartily endorse the chairman's bill and hope, in fact, that we will see a provision such as that passed this year.

Thank you.

[The prepared statement follows:]

STATEMENT OF ADELE M. BLONG, CENTER ON SOCIAL WELFARE POLICY AND LAW, FOR PRESENTATION OF BEHALF OF: FRANKLIN COUNTY WELFARE RIGHTS ORGANIZATION, COLUMBUS, OHIO; OAKLAND COUNTY WELFARE RIGHTS ORGANIZATION, PONTIAC, MICH.; UNITED PEOPLE WELFARE RIGHTS ORGANIZATION, FAIRMONT, W. VA.; VERMONT LOW-INCOME ADVOCACY COUNCIL, WATERBURY, VT.

It is heartening to be able to start with at least some good news. Due to delays in state implementation and other factors, poor children are still not feeling the full brunt of the AFDC cutbacks enacted last year, and thus, some of them are at least temporarily spared some of the hardships that are in store. Unfortunately, however, it is only a postponement, and many more of the children who depend on AFDC as their "safety net" are slated to join those who have already fallen through one of the many holes created by the 1981 cuts. The full extent of the possible loss cannot be calculated because of the many options given to the states, but even if all states were to permanently limit their cutbacks to the mandatory cuts imposed by last year's amendments, the loss of aid to poor children would be major. Moreover, the results will probably go far beyon any immediately measurable damage to their physical well-being.

Obviously the growing toll from last year's cuts cries out for some remedial action, and we are pleased to have this opportunity to discuss the possibilty of such action with you. However, it is shocking if not appalling to also have to address proposals for still more cutbacks in AFDC and new cuts in SSI. Over eight million children a year depend on AFDC for their daily sustenance and the further impoverishment of these children is both cruel and short-shighted. No country can protect its future by sacrificing its children. The assault on the disabled poor is equally dismaying.

Who Receives AFDC?

It is principally children that are hurt by cuts in AFDC.

Thus, while proponents of these cuts choose to talk about AFDC as if it was composed predominantly of adults, and indeed often talk as if the program was composed almost totally of adult males in two-parent families, it is critical to remember that 70% of the recipients are children. Also, close to 80 percent of AFDC families have only one parent in the home and 81 percent live in families headed by women. The families are generally small and the children are young. Seventy percent of AFDC families include less than 3 children and the percent of smaller size families has been rising steadily since 1975. More than 36 percent of the children receiving AFDC are under age 6 and another 49 percent are between the ages of 6 and 14. Over one-third of the families include at least one child under 3 and more than 55 percent include a child under 6.

Contrary to the belief that radical surgery is needed to separate a family from AFDC once it has received aid, the March 1979 recipient study found that nearly 57 percent of the families had been continuously on the rolls for less than 37 months and almost three-fourths had been continuously on the rolls for no more than 5 years. Also, although only approximately 13 percent of AFDC families have earned income in any one month, far more of the families work at some time during the year. According to census data, approximately 62 percent of the families who receive AFDC during any one year have some earned income during that same year.

The charge that the program needs to be abandoned because it has failed is similarly unfounded. Certainly, we would be the first to agree that the program has failed to provide an adequate living

standard for all those in need of aid to reach that goal, but it is equally clear that the program has succeded in making it possible for families to stay together who might otherwise have been forced apart by a total inability to meet daily living needs. And this unfortunately is all it was ever designed to do. No one believed in 1935 and none could believe now that AFDC was designed to eliminate the need for public assistance or that it could singlehandedly deal with all of the root causes of poverty. Its purpose has been simply to alleviate the effects of poverty and to at least give a family a chance to avail itself of whatever other means are open to it to move out of poverty, and this it has done albeit less generously than one would think the nation could afford. One might as well blame the victim for the crime as blame the continuation of poverty on the existence of the AFDC program.

Similary for those who argue that AFDC can and should be cut because the recipients don't really need the benefits, we suggest an examination of AFDC benefit levels as the best answer to the myths that poor families voluntarily turn to welfare rather than seek other means of support, and that recipients are not in need.

How Poor Are The Children Who Receive AFDC?

The Center for which I work recently completed a nationwide survey of AFDC benefit levels for families of 3 and 4. A copy of our report, which shows the AFDC benefits payable as of February 1982 to families of 3 and 4 without income and the typical food stamp benefit that they might receive, is attached to this state-

ment. As shown in that report, combined AFDC/food stamp benefit levels for families of 3 and 4 in all states but Alaska fall short of even the meager poverty level. The combined benefits as of February 1982 were less than 76% of the 1981 poverty level in 26 of the 51 states, and in Puerto Rico, Guam and the Virgin Islands.* Only Alaska, California, Hawaii, Minnesota, New York, Vermont, Washington, and Wisconsin provided AFDC benefits in February of 1982 which brought the combined AFDC/Food Stamp benefit level to 90% or more of the March 1981 poverty level.

The gap is even wider when these benefits are measured against the current poverty level which has increased almost 10% above the 1981 levels to $646 a month for a nonfarm family of 3 in all states but Alaska and Hawii ($7760 a year), and $775 a month for a similar family of 4 ($9300 a year). Needless to say this increase is not matched by any increase in benefits. Only two states have increased their benefits since February 1982, and food stamps benefits have not increased at all. Indeed even the increase in food stamp benefit levels due later this year is now in jeopardy.

We recognize that some would seek to obscure the stark reality of these figures by arguing that other in kind benefits such as housing assistance, medicaid, and energy assistance should also be counted in assessing whether or not federal benefits have moved a family out of poverty. However there is not a shred of

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* Throughout this statement, the term states refers to the 50 states and the District of Columbia, unless otherwise indicated.

fairness or rationality in counting as income to all families benefits that are not universally available to all. Both energy assistance and housing assistance are unavailable to many families because of their limited funding base and medicaid makes payments only on behalf of those who incur medical costs.

In addition, there is no way that a family comes any closer to the poverty level if its medical bills are paid or if it receives assistance to meet its utility costs, unless the cost of these items is accounted for in the poverty level to begin with. Clearly the poverty level does not take account of the massive increase in energy costs over the past few years and it is doubtful that there is any fair accounting for the cost of medical care. Similarly, the only housing assistance that could fairly be thought of as increasing the individual's spendable income is assistance which reduces the shelter cost that the individual would otherwise be expected to bear at a poverty level income. Providing a family with better quality housing than what it could otherwise afford does not decrease its shelter costs below the cost of other poor families or add to the income it has available to spend on non-shelter items.

Moreover, benefits are compared with the poverty level because of general agreement that it is the least that anyone should be expected to live on, not because there is any agreement as to the sufficiency of the amount. While there are those who would seek to turn this debate solely into a question of the size of the gap below the poverty level and to deflect attention from the inadequacy of the benchmark, the briefest examination of the poverty level demonstrates the meaninglessness of such an exercise. For

example, consider that the officially declared poverty level as of April 1982 is $775 a or $9300 a year for a family of 4 while the U.S. Bureau of Labor Statistics found as of Autumn 1981, that attainment of the lower living standard required $15,323, or $12,291 if one deducts expenditures for medical care and personal income taxes. In addition The 1980 census found that the nationwide medium family income was $19,908.

Thus, it is clear, as the framers of the poverty level themselves concede, that attaining a poverty level income does not mean that the family has reached a level of adequacy or decency. At best, the poverty level measures the dividing line between being in dire poverty and simply being poor, and there is serious question as to whether it is even a fair measure of that. Any gap between benefits and the poverty level is per se evidence of gross inadequacy, but even those families who reach the poverty level must be recognized as truly needy in any realistic assessment of their situation.

Looking just at AFDC benefits, perhaps the most telling fact is that in 27 states, and Puerto Rico, the AFDC benefit level does not even meet the state needs standard, the state's own definition of the minimum required for subsistance living. Twenty-two states provide AFDC benefits of less than $300 a month to a family of three with no income, and only nine have a monthly benefit of more than $400. In the 48 contiguous states, such benefits range from a low of $96 a month in Mississippi and $118 a month in Texas and Alabama, to highs of $506 a month in California and $478 a month in Vermont. Thirty-two states plus Guam and the Virgin Islands.

provide an AFDC benefit for a family of three of between $200 and $400 a month.

Moreover, the gap between AFDC benefits and the poverty level is growing ever wider. Benefit levels have almost uniformly failed to keep pace with cost-of-living increases since 1975. From 1975 until December 1981, the official poverty level increased by approximately 67%, while the Consumer Price Index rose 73.4%. Only 5 states and Puerto Rico increased benefit levels for families of three at a rate close to or above these rates of increase -- California 72.7%, Maine 71%, Mississippi 100%, Missouri 106.6%, Nebraska 66.6% and Puerto Rico 109.3% -- and in Missouri, Mississippi, and Puerto Rico, these increases produced benefit levels of only $248, $96, and $90 a month respectively.

Thirty-three states increased AFDC benefits by less than 40% since 1975. Eleven states increased benefits by less than 10% and seven of these eleven were among the twelve lowest benefit states. Texas, the state with the second lowest benefit level for a family of 3, increased its benefits by less than 2%.

The deterioration in AFDC benefits has grown even more in the past eighteen months. Only 22 states have increased benefits since December 1980 and of these, one simply restored part of the amount that had been cut since October 1980, while eight others increased benefits by less than 6%. Benefit levels in two states, Arkansas and Oregon, decreased below 1975 levels, and in Puerto Rico and four states, Idaho, Michigan, Nevada and Washington, bene-

fits, although still above 1975 levels, have decreased in the last 2 years. There is also no evidence that states are increasing benefits with the "savings" from the 1981 cutbacks. Only 9 states have raised benefits since July of 1981, and 2 have decreased benefits in that period.

Cost-of-living increases in food stamps up to January 1981 helped to fill some of this ever widening gap but they did not fully compensate for the real dollar loss since 1975. In real dollar terms, the combined benefits available from AFDC and food stamps in almost every state are less than what they were in 1975. Aid to poor families with children has been and is continuing to be cut back every year simply by attrition in benefit levels.

So then where are the non-poor receiving AFDC? As the Administration is the first to point out, over 80% of the families receiving AFDC in any one month have no earnings or non-counted outside income. Certainly, the mythical high earner receiving AFDC has been eliminated by the 150% cap and the 4 month limitation on the earnings disregard. Moreover, even the Administration admits that she was hard to find even before their cuts -- its 1981 estimate was of no more than 800 families, out of 3.4 million families, earning at an annual rate of more than $14,500. No doubt somewhere among the 4 million plus families that receive AFDC over the course of a year, one can find an example of a non-poor family who has somehow managed to receive benefits but can any reasonable person believe that they are the norm and not just one of the aberrations that can be found within any system. Indeed the best proof of the poverty

of AFDC families is the fact that the proponents of reduced program costs can apparently find no way to reduce such costs without taking aid away from desperately needy children, for example, last year's elimination of eighteen through twenty year olds in college is now followed up by a proposal to reduce aid to their younger brothers and sisters if they remain in the home.

What Is The Federal Commitment To AFDC?

For the past year and a half, we have been told that cuts in AFDC and other income lifelines for poor families,such as food stamps and low income energy assistance, are necessary sacrifices to avert disaster from an unbalanced federal budget. However, it is hard to believe that anyone really believes that AFDC plays a significant part in the budget deficit.

The total federal expenditure for AFDC for fiscal year 1981 represented only slightly more than 1% of the total federal budget for that year. However, although only 1% is spent, the proposed AFDC cuts equal 3.6% of the total proposed cuts for 1983,* and almost 2.4 % of the total proposed "savings". This disproportion is a little bit like the old children's joke -- where were you when God was giving out brains -- poor children apparently are behind the door when the pie is being given out and are only found when the bill is being split up.

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* "Total proposed cuts" refers to reductions in program expenditures as opposed to savings from management initiatives and user fees, as these terms are used in Part I of the Summary and Analysis of President Reagan's Fiscal Year 1983 Budget prepared by the Staff of the House Budget Committee, CP-12, 1982.

Last year's cuts, as this subcommittee well knows, reduced actual program expenditures below fiscal 1981 levels, and CBO estimates of current law costs project expenditures equal to or less than actual 1981 levels through 1984. Various analyses of the effect of last year's cuts put the reduction in federal expenditures for this year between $435 million and $1 billion, depending in part on the rate of state implementation and state choices as to the scope of reductions, and varying estimates as to what would have been spent but for these changes. CBO's estimate is $800 million. And, of course, federal "savings" are only a part of the total benefit loss so that one can reasonably estimate that last year's changes caused a reduction in AFDC payments of well over $1 billion regardless of whose numbers you choose. Even if one assumes that cuts can and should be spread evenly over all programs, AFDC has clearly suffered a disproportionate share. Moreover, in any rational and humane system, one would expect means tested programs for the poor to be the last and least to be cut not the first and the most.

Words fail as one turns from contemplation of the devastation wrought by last year's cuts to the suggestions for even further cuts. Although the latest census reports that 12.5 percent of our nation is poor, and close to 5 percent of the population depend on AFDC at some time during the year, apparently 1 percent is too much to spend on the program of last resort for poor children and, in the Administration's view, our national salvation rests on reducing expenditures for these children to even less than 1%. The contention would be ludicrous were it not so shameful. Again the

Administration is proposing cuts to reduce actual program expenditures, not growth, and to cut anywhere from a billion to two billion dollars in benefits depending on the estimate you choose. Ironically the proponents of these cuts are those who argue for the larger estimate of their effect. Taking OMB's February budget figures, the proposals would cut federal expenditures for AFDC in 1983 by 18 percent, so that the cumulative effect of these proposals and last year's cuts would come close to 30%, all of this in a program that does not now provide needy children with enough aid to even bring then up to the poverty level.

The magnitude of this reduction says it all. It is hardly necessary to go through an individualized analysis of each proposal. Poor children must not be subjected to further deprivation. Such a proposal would be unacceptable at any time but it is doubly so coming on the heels of last year's cuts, and the disproportionate share of the burden that is already being borne by the poor who depend in whole or in part on means - tested programs.

The Fallout From the 1981 Cuts

No assessment of further change in the AFDC program can be made without some evaluation of the effect of last year's cuts. Most of the public attention around the 1981 cuts has focused on the provisions that were aimed at the working poor -- the reduction

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of the $30 and 1/3 earnings disregard and the limitation of this disregard to 4 months, the standardization of the work expense deduction at $75 for full-time workers and of the child care allowance at $160, and the cap on eligibility at 150% of the state needs standard. As detailed in the press, these cuts have had a devastating effect on poor working families. However, as the members of this committee well know, 1982 changes went far beyond these provisions. There were other major mandatory cuts, some of which have not yet been fully felt because of implementation delays, such as mandatory monthly reporting and retrospective budgeting. There are also other time bombs set to explode if states so desire, such as counting food stamps and housing subsidies as income in AFDC.

Two of the changes that had impact beyond families with earnings were the elimination of coverage of eighteen to twenty-one year old children who were attending school, and the restriction of coverage of pregnant women, i.e., "unborn child" coverage. Prior to August 1981, states were permitted to provide AFDC to meet the needs of children aged eighteen to twenty if they were students regularly attending school or vocational training, and, as of that date, thirty-eight states did so. The number of children who were able to take advantage of this coverage was small, and about 170,000 children a month received benefits on this basis. To be eligible, these children had to meet all the other AFDC conditions -- they had to be deprived of parental support or care by the absence, death, incapacity, or unemployment of a parent, and to be living with one of the enumerated relatives, and the income of the family unit had to be below the state's eligibility standards.

Last year's amendment limits coverage to children under eighteen and to eighteen year olds who are still in secondary school, thereby eliminating cash aid to that small group of children who were struggling against enormous odds to find a way out of poverty through education, and also denying them medical assistance. Ironically, many of the same children who are hurt by this change would be further hurt by one of the proposed changes for 1983, the proposal to pro-rate benefits where there are non recipients living in the household with AFDC recipients. Most of the children over eighteen who were receiving AFDC were in families with younger brothers and sisters and presumably they, and others like them, have remained and will remain in those households for some period of time past their eighteenth birthday. Under the pro-rating proposal now advanced by the Administration, benefits to their younger brothers and sisters would be reduced simply because they are in the household. After depriving these children of assistance to help them go to school, they would now be virtually driven out of their homes. Coverage of poor children in college should be restored.

The exclusion of "unborn children" is similarly ununderstandable in a program that is supposed to "help maintain and strengthen family life". (Section 401 of the Social Security Act, the statement of purposes for the AFDC program). Prior to August 1981, thirty-five states had taken advantage of the option to provide benefits based on recognition of the needs of the "unborn child". Twenty-seven of these states began such aid as soon as the pregnancy was medically verified while four others waited until the beginning of the fourth month. These states followed two approaches as to

the amount of aid. Some simply paid a regular one person grant to the pregnant woman or paid a one person grant with a special pregnancy supplement. Eighteen states provided an amount for the needs of the "unborn child" so that the benefit was equivalent or close to a two-person grant. These provisions for payment of more than a regular one-person grant reflected recognition of the fact that the health and future development of the unborn child depended on the mother's ability to maintain a diet of nourishing food and otherwise meet basic physical needs during her pregnancy and that the usual state benefit for one person was geared to providing only bare subsistence needs.

Despite the obvious importance of this aid to the future of children, states are now prohibited from providing AFDC before the sixth month of pregnancy and are prohibited from making any separate provision for the needs of the "unborn child", i.e., aid based on the fact of pregnancy cannot start before the sixth month and aid can only be paid on the basis of the needs of the pregnant woman. Luckily, states are still permitted to provide medicaid for the pregnant woman from the onset of pregnancy, but as important as medical coverage is, it does not deal with many of the basic needs that are critical to the child's healthy development. Medicaid cannot pay for nourishing food, adequate warm clothing, livable housing.

Four states, Kansas, the District of Columbia, New York, and Ohio have decided that this denial of aid is unacceptable and are providing state-funded cash assistance, and others are

considering doing the same. However, it is still estimated that benefits lost under this provision will amount to as much as $30 million a year, and it is also obvious that even those states that are now trying to fill the gap may falter without federal assistance. It is difficult to think of any more short-sighted way to "save" money than increasing the risk of poor nutrition and poor care during fetal development. Full coverage of pregnancy related needs should be restored.

One of the provisions that poses the most broad-based continuing risk of loss to families is the requirement of establishment of monthly reporting systems and retrospective budgeting. The full impact of this change has not yet been felt and will not be felt until many months hence since a large number of states have not yet implemented these provisions and many will not be able to do so for several months. The federal regulations which first permitted states to use retrospective budgeting in May 1979 contained important protections to minimize the resultant harms. States were required to make supplemental payments where the retrospectively determined grant to a family was significantly less than what they would be entitled to based on their current circumstances because their circumstances had changed since the base period used to determine the grant. There were also specific procedural safeguards attached to monthly reporting systems to give recipients some protection against losses of benefits caused by their inability to cope with the reporting requirements or by the agency's failure to properly process such reports.

Twelve states, including California, Michigan, Oregon, and Washington, had some form of monthly reporting and retrospective budgeting in place, or in preliminary implementation stages, in March 1981, and a few states were considering establishing such systems. Many other states had rejected adoption of such systems for a variety of reasons such as costs outweighing savings, impact on recipients, etc.

Ironically, the Department of Health and Human Services was at that time in the beginning stages of a major pilot program which was supposed to test out various forms of reporting systems and budgeting methods, including current needs budgeting. There were two particularly critical elements in this study, to identify causes of individual failures to file monthly reports as a basis for evaluating the utility of monthly reporting systems and determining what safeguards were needed if such systems were adopted, and to determine the impact of retrospective budgeting and of current needs budgeting on costs, savings, and responsiveness, separate and apart from the impact of reporting requirements. One reason for this study was that many recipients' advocates and other analysts of the AFDC program argued that if the "problem" that was being addressed was erroneous payments due to failure to take account of changes in circumstances, the solution to that problem lay in improvements in agency systems for receiving and processing reports of changes, and that there was no need to change the method of determining the amount of aid that the family was entitled to.

The amendment of the statute to mandate monthly reporting and retrospective budgeting cast all these concerns aside. States

are required to establish monthly reporting requirements which include at a minimum all families with earnings and to use retrospective budgeting as the exclusive method for all families other than applicants. Supplementation is not only not required; federal matching for supplemental payments is barred and the Department of Health and Human Services is taking the position that a state cannot make supplemental payments out of state money without having these payments counted as income. If the Department prevails in this position, effectively there can be no supplementation since supplemental payments counted as income for the month of receipt will simply further reduce AFDC payments in subsequent months, i.e., if May benefits are based on March circumstances and the family receives a supplemental payment in March which is counted as income for March, the amount of the May benefit would be reduced accordingly.

The failure to provide supplemental payments will hurt every family that has a drop in income between the budget month, the month looked to in determining income and circumstances, and the payment month. However, since most of the outside income received directly by recipients is income from earnings, the major impact of the budgeting change will be on families with earnings who suffer a reduction in wages or lose their job completely. A family in such a situation could wait three months for a grant adjustment to reflect their actual circumstances. For example, if a family receives its last paycheck on the 19th of February, the March benefit would be calculated on the basis of January earnings, the April benefit would be calculated on the basis of February earnings, and

it would not be until May that a full grant would be issued based on zero outside income in March.

The magnitude of this loss is graphically illustrated by the situation in California, which has just dropped its provision for supplemental payments to conform to the federal law. The state reported that over 5700 families a month had been receiving supplemental payments under a system which provided supplements only if the grant plus outside income without application of the $30 + 1/3 disregard fell below 80% of what the family would be entitled to based on its current situation. It estimated that supplemental benefit payments to such families amounted to $11 million a year. Why should a family be forced to pay a double penalty when it loses a job -- loss of an opportunity to move out of poverty and an unjustifiable delay in providing assistance needed to meet its basic living needs? States should be permitted to use current needs and/or make supplemental payments to adjust promptly for increased needs.

As mentioned earlier, there are a number of provisions which are optional with the states which could seriously injure poor children if states were to take advantage of them. The implications of one of these provisions, optional work relief projects, are discussed in connection with the proposed 1983 changes. The other major potential loss for poor children flows from the option to count food stamps and housing subsidies as income. No state is yet attempting to count food stamps as income but four states, Connecticut, Massachusetts, Pennsylvania, and South Dakota, have

indicated that they are considering the idea, and the state of Washington has enacted legislation authorizing the welfare department to count food stamps and housing subsidies if it so chooses. Accordingly there is no assurance that states will not attempt to move in this direction, and it is not clear whether the limited state action to date reflects affirmative rejections of the idea or simply reflects the fact that most states have had to devote their resources and energies to impletation of the mandatory changes and have had little, if any, time to turn their attention to consideration of options.

Counting food stamps and/or housing subsidies as income effectively deprives AFDC recipients of the benefits that such programs are supposed to provide. AFDC benefits are counted as income in determining a family's food stamp allowance and its eligibility for housing subsidies, so there need be no fear that the latter allowances duplicate AFDC assistance. Instead AFDC recipients qualify for food stamps and housing subsidies in addition to their AFDC benefits because those AFDC benefits do not provide them with sufficient aid to meet their basic food and shelter needs. As demonstrated by the attached Report on AFDC Benefit Levels, the harmful effect of counting food stamps is in inverse proportion to AFDC benefit levels -- the lower the state AFDC benefit levels, the higher the food stamp allowance, and therefore the greater the reduction in AFDC benefits if food stamps are counted on the assumption that they duplicate the full allocation for food that is provided in the benefit level.

We believe that there are some limitations on the counting of food stamps and housing subsidies under the statutory provision which would prevent any substantial counting of food stamps and housing subsidies. However, our view of the statute is clearly not shared by the Department of Health and Human Services which specifically rejected our suggestion that these limitations be incorporated in their implementing regulations and stated "it is our position that Congress intended to permit maximum flexibility for the States in this regard." (47 Fed. Reg. 5653, 2/5/82) While this rejection will not cause us to abandon our interpretation, it is a clear signal of the heavy burden that recipients will face in attempting to limit state counting of food stamps and housing subsidies if a state should decide to move in this direction. As long as this provision remains in the law, any estimate of damage must recognize the potential for even greater harms in any state that is willing to adopt the rationale and philosophy of the Administration with regard to this provision. States should not be permitted to count food stamps and housing assistance as income.

Returning to the changes in the treatment of earnings, it is important to recognize that the effects of the 4 month limitation are just now beginning to be felt. The 4 months began to run on October 1, so that the first reductions and terminations because of the rule did not take place until February 1 and in some states these reductions were further delayed.

Under this provision, after a family has been receiving AFDC and working for 4 months, the $30 + 1/3 disregard is no longer applicable and the family's eligibility and payment are based on its total gross monthly earnings (gross earnings not take home) minus $75 (or less for part-time workers) and any expenditures for child care up to $160 per child, i.e., gross earnings minus $75 and minus child care costs up to $160. As a result, benefits for working families drop dramatically. In addition, families have less spendable income than they would have if they were not working whenever their mandatory payroll deductions and out-of-pocket work expenses exceed the allowable $75 deduction, and many of these families become ineligible for any AFDC benefit despite the fact that their spendable income is below AFDC benefit levels.

Here are a few examples of what happens from month 5 on under the 4 month rule. A family of three with a full-time worker and without child care expenses is ineligible for AFDC in Alabama when its gross monthly earnings equaled $193 a month, although the Alabama needs standard for a family of three is $384. Other examples of the effect on such a family of three are -- ineligible in California at $581, in the District of Columbia at $374.93, in Georgia at $258, in Michigan at $470, in New York at $499, in Ohio at $338, in West Virginia at $281, and in Texas at $193. For a family of four without child care expenses, the comparable figures would be $223 a month in Alabama, $676 in California, $441.17 in the District of Columbia, $293 in Georgia, $567 in Michigan, $589.70 in New York City, $402 in Ohio, $324 in West Virginia and $216 in Texas.

As the committee has recognized, The price for some families is even higher than the loss of AFDC benefits. As a result of their loss of AFDC eligibility, they also lose medicaid coverage. Thus, 20 states do not have medically needy coverage in medicaid and, in these states, families that become ineligible for AFDC payments also lose medicaid. In addition, even in states with medically needy programs the services available are often less than what is provided under the cash needy program so that loss of eligibility for AFDC benefits entails a significant loss of medical coverage. This loss of medicaid coverage is, of course, not unique to loss of AFDC benefits due to the 4 month limitation. It is a consequence of every change that results in denial of AFDC payments to a family, or that excludes particular individuals or members of a family from AFDC coverage, such as the elimination of AFDC coverage for 18 to 21 year old children in school.

One change in the earned income disregards that has received scant attention is the effect on families with childcare expenses that flows from changing the one-third disregard so that it only applies to monthly earnings remaining after deduction of $30 and the allowances for work expenses and child care expenses rather than applying, as it did previously, to earnings minus $30. This change reduces the value or amount disregarded by virtue of the one-third disregard for all families, but it bears particularly harshly on families with out-of-pocket child care costs. The effect is shown by the following examples. Example 1 is a mother

with three children working full-time with gross earnings of $425 a month and paying $150 a month out-of-pocket for child care. Example 2 is a mother with three children working full-time with the same earnings but who does not have any children in paid day-care or has her children's day care costs provided for under the state's Title XX social services program. As shown in the examples, the "work incentive" or $30 and 1/3 disregard is $50 higher for family 2, the family without child-care costs.

Effect of Deducting Child Care Before the One-Third

	Example 1	Example 2
Monthly Gross	$ 425	$ 425
$30 disregard	- 30	- 30
Wk Exp Allowance	- 75	- 75
Child Care Costs	-150	- 0
Remainder	$ 170	$ 320
1/3 disregard	- 56	-106
Countable Earnings	$ 114 out of $170 remdr	$ 214 out of $320 remdr
Total $30+1/3 disregard	$ 86	$ 136

This loss does not affect vast numbers of families since only about 230,000 families, or 49% of families with earnings, have out-of-pocket child care costs. But for those families who are affected, the impact is extreme. They are much worse off than other families who are otherwise in exactly the same situation. Why, one might ask. No rationale was ever advanced for this peculiar discrimination except the obvious fact that taking the one-third deduction at the

bottom saves the most money. However, it saves that money by taking it away from families who well may be forced to stop working because they can no longer afford to pay for child-care, or worse, may feel compelled to sacrifice their children's day care needs. Even if these mothers somehow manage to continue working, they and their children are penalized because they are trying to both work their way out of poverty and insure safe and adequate care for their children.

The change in the treatment of earnings that has had the greatest effect is the 150% cap on eligibility. Again this provision looks at gross earnings not what the family realizes to use to meet its basic food, shelter, and clothing needs. Whenever a family's gross monthly earnings reach 151% of the state's needs standards, it is ineligible for AFDC without regard to its work expenses or child care costs.

Benefit losses from this provision have far exceeded the Administration's original estimates and the American Public Welfare Association estimates that it will result in the denial of at least $158 million in benefits over a full year. In Ohio alone, $762 thousand a month in benefits are denied because of this provision. The magnitude of this cut is even more startling in view of the fact that at least six states have increased their needs standards by more than 37% to offset the effect of the cap and two others increased by more than 9%. In addition, three other states were compelled to increase their standards or defer application of the

cap because of court decisions that the standards in use were invalid. Alabama, Georgia, Illinois, and North Carolina increased their needs standards by 50% or more, without raising benefit levels. The District of Columbia increased its needs standards by 49%, while increasing benefits by 5%, and Georgia increased the needs standard by 90% and benefits by 6%. Colorado increased needs by 21.4%, Louisiana by 9.78% and Maryland by 38%, without increasing benefit levels.

The following chart shows the current eligibility limit under the 150% cap based on the needs standards set out in our attached Report on AFDC Benefit Levels. As shown therein the 150% cap bears particularly heavily on families of three or less. Minimum wage earnings for a 40 hour week would make a family of 3 ineligible for AFDC in 33 states and Guam, Puerto Rico, and the Virgin Islands. (Monthly minimum wage of $580, $3.35 hr x 40 hrs x 4 1/3 weeks).

Eligibility Limit Under 150% Cap Based on February 1972 Standards

State	Family of 3	Family of 4
Alabama	$576.00*	$720.00
Alaska	856.50	951.00
Arizona	349.50*	423.00*
Arkansas	351.00*	409.50*
California	759.00	901.50
Colorado	570.00*	690.00
Connecticut	639.96	751.48
Delaware	399.00*	468.00*
D.C.	879.00	1072.50
Florida	313.50*	369.00*
Georgia	549.00*	648.00
Hawaii	702.00	819.00
Idaho	855.00	961.50
Illinois	729.00	889.50
Indiana	461.17*	544.80*
Iowa	540.00*	628.50
Kansas	492.00*	561.00*
Kentucky	282.00*	352.50*
Louisiana	757.50	930.00
Maine	622.50	783.00
Maryland		
7/1/80	405.00*	489.00*
2/1-7/1/82	559.50*	675.00*
Massachusetts	568.80*	666.75
Michigan	648.00	807.00
Minnesota	669.00	780.00
Mississippi	330.00*	378.00*
Missouri	468.00*	547.50*
Montana	459.00*	588.00
Nebraska	$525.00*	$630.00
Nevada	427.50*	511.50*
New Hampshire	519.00*	588.00
New Jersey	540.00*	621.00
New Mexico	372.00*	421.50*
New York	636.00	772.05
N. Carolina	576.00*	630.00
North Dakota	535.50*	744.00
Ohio	646.50	772.50
Oklahoma	423.00*	523.50*
Oregon	480.88*	563.68*
Pennsylvania	907.29	755.28
Rhode Island		
Apr. - Nov.	550.90*	630.07
Dec. - Mar.	679.00	776.64
S. Carolina	280.50*	343.50*
South Dakota	481.50*	541.50*
Tennessee	268.50*	325.50*
Texas	252.00*	301.50*
Utah	804.00	960.00
Vermont	1036.50	1173.00
Virginia	424.50*	508.50*
Washington		
Area I	687.00	804.00
Area II	637.50	754.50
W. Virginia	412.50*	498.00*
Wisconsin	834.00	993.00
Wyoming	472.50*	510.00*
Guam	382.50*	450.00*
Puerto Rico	270.00*	342.00*
Virgin Islands	313.50*	394.50*

*Amount shown is less than monthly minimum wage for a 40 per hour week.

Clearly these harms must be remedied immediately and we support the initiatives of this subcommittee's members in seeking to remedy the problem. Elimination of the gross inequities introduced by the cap, and the 4 month limitation on application of the $30 and 1/3, both of which are addressed in the Chairman's bill, H.R. 5791, will go a long way to curing the worst problems for families with earnings. However, we would urge the committee to also give consideration to curing the inequitable distinction in treatment between families with and without child care expenses. Also we cannot support the denial of equal treatment to unemployed families since two-parent families on AFDC-U are as needy as one-parent families in the same state and have an equal need for the extra help provided by the disregard.

As the subcommittee has further recognized there is also urgent need for removal of the major barrier to the achievement of self-support posed by the loss of medicaid when the magic number is reached. It is of paramount importance to insure a system of medical coverage which will prevent earnings from causing losses in medical coverage far outweighing the value of the extra dollars earned. Accordingly we support the spirit of H.R. 5226, but we have serious questions as to whether its particular scheme will yield the desired result or simply introduce new complexities into the AFDC/medicaid link and therefore believe this issue might be better addressed through the medicaid program.

Finally, although there is no data as yeet on the effect of the swift implementation dates imposed under last year's cuts, our

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personal experiences lead us to suspect a high incidence of errors as states seek to reprogram their systems without adequate preparation. Examples of totally inadequate notices and attempts to deny hearing rights abound. One client organization in Michigan reports it is doing close to 40 hearing requests a month primarily in response to agency errors, and that decisions are being reversed in 80% of the cases. Also, as mentioned at the outset some of the changes that are most fraught with the potential for procedural error such as monthly reporting have not yet been implemented in some of the high caseload states including Ohio and New York. The continuing implementation problems from the 1981 cuts are one more reason why there should not be any further major changes in the program.

The AFDC Cuts Proposed for 1983

Obviously it is difficult to assess the full impact and meaning of these cuts based on the limited information available. However, certain features do seem to be clear and they are addressed below. The overall thrust is also clear. AFDC benefit payments to needy children would be cut directly by almost $2 Billion. There would also be other reductions in federal funding for administrative costs, and increased fiscal penalties for overpayments, both of which would stimulate states to further reduce benefit levels or make other cuts to adjust for losses in federal funding. The Work Incentive Program would also be eliminated. Moreover, since these benefit cuts would come on top of last year's cuts which already eliminated the supposed "high-income" families from the rolls as well as reducing benefits to many others, it is even clearer this year than last that these cuts would cut into the basic food, shelter and clothing needs of desperately poor children. We strongly oppose all of these proposals and urge you to reject them in toto.

States would be required to pay less than full benefits whenever an AFDC recipient lived in a household with others. For example, benefits would be reduced or "pro-rated" when two AFDC families live together or when the children's grandmother or aunt lives with them and their mother, whether or not those relatives had any income or were making any contributions to the AFDC recipients, and even if they were themselves receiving assistance. The Administration estimates that almost 475,000 families would lose benefits and these estimates appear low to us in view of the fact that there seem to be 800,000 families in this situation. Also

three hundred and eighty-nine thousand of the "other" adults living with AFDC recipients receive some form of cash public assistance. (-$174 million)*

The Administration claims that there are economies of shared living expenses in shared households and that they are often not taken into account in AFDC. However, there are no economies where the other individuals do not have income, and states are already permitted to "pro-rate" the shelter portion of the grant where there are non recipients in the household with income above their needs. In addition, states must count any income that is actually contributed to the family and, since last year, must count all income of a stepparent in an AFDC household. Furthermore, fourteen states, including California, Michigan, New York, Oregon, and Vermont, already take account of any reduced shelter costs attributable to sharing by determining aid on the basis of the family's actual shelter payments, and twenty-three of the remaining thirty-six states pay benefits below full needs, i.e., below what the state believes the family requires to meet its needs.

Imposing a further pro-ration on top of the existing system is simply a direct benefit reduction for individuals in extended family living arrangements, a penalty which is likely to have most heavily on blacks and hispanics. In addition, it ignores the fact that many of the other adults are providing child care to enable the mother to work.

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* The figures in parentheses after each item are the OMB projections of the federal "savings" from the change. In the case of the direct benefit cuts, the amount of lost benefits as a result of the change would be significantly higher and could be twice as much as this figure.

States would also be required to count the income of all adults living in the household who are not related to the AFDC children as income to the children. This proposal like the one discussed above would result in benefit cuts that had no relationship to the amount of income that was actually available to the children or to any reduced costs as a result of the presence of the unrelated adult. It seems to be aimed simply at a return to the era of "man- in-the-house" rules when states denied benefits by assuming that visitors were living in the house and contributing their income to the family and then developed midnight raids to find such visitors. ($69 million)

Energy assistance received by AFDC recipients would be counted as income so that the amount of their AFDC benefits would be reduced if they received energy assistance. Effectively energy assistance would be reduced for families receiving AFDC. The Administration says this change is necessary to reduce overlap and take existing resources into account in determining AFDC benefits. However, energy assistance is provided as a supplement to AFDC and other income in recognition of a poor family's inability to meet soaring energy costs out of its income. States consider income, including AFDC payments, in determining a family's eligibility for energy assistance. There is no duplication in providing both benefits. The duplication would be in counting each benefit against the other. Counting energy assistance back against AFDC deprives families receiving AFDC of energy aid available to other families with the same amount of income from a different source. (-$175 million)

Family benefits would be reduced when the youngest child reaches 16. At that time, the mother's needs would be removed from the grant, e.g., a mother and two children would receive a grant for two. The Administration says that this is because the parent is no longer needed to care for the children and therefore should be seeking work. However, the income loss to the family cannot be met by the mother's simply seeking work, she must be able to find a job. If she does find a job, there is no reason to treat her children any less favorably than the needy children of other working parents, i.e., to do other than continue to provide for her needs and count her income in determining the amount of aid payable. (-$47 million)

Applicants for AFDC would be required to job search for a fixed period before they and their children could receive AFDC, no matter how pressing their need was at the time they applied. Recipients who are deemed to be employable are required to job search under current law. Under this proposal, applicants for aid would be required to job search before their applications could be acted on, even though their children were desperately in need of prompt assistance to meet their current needs. It is inhuman to impose a waiting period on children who are in dire need, especially when states already take more than 30 days to make decisions on over 25% of the applications received.

Futhermore, it appears that the proposal may do even more than delaying aid. Thus, the Administration's savings figures suggest that its plan is to treat the fact of obtaining a job dur-

ing job search as a disqualification for aid, or, at a minimum, to not apply the $30 & 1/3 disregard to earnings received from any such job so that almost all of the earnings would be counted in determining eligibility and payment. If the mother doesn't find a job, her family suffers from the prolonged delay in getting assistance; is she does find a job, her family suffers from such delay and also is denied the supplemental AFDC and attached medicaid coverage which they need and to which they would now be entitled if she found the job after the application. (-$145 million)

States would be required to establish work relief programs and to limit coverage under their AFDC-U programs to families of unemployed parents who were working in a work relief assignment. Despite the Administration's testimonials to the value of work relief, states have been slow to pick up the option to establish such programs that was enacted in 1981, and now the Administration has decided that states should not have flexibility in this area. All states would have to have some work relief programs. States that wish to aid needy unemployed workers would have to establish large scale statewide programs since inability to provide a work relief slot for an unemployed parent would necessitate denial of aid to the family.

Individuals assigned to work relief would not receive any salary but would simply labor for a public agency or private non-profit employer in a second-class, or worse, status, and would not have any employee rights -- social security coverage, collective bargaining, advancement to other jobs --, nor receive any of

the fringe benefits of employment -- sick leave, vacation, health insurance, pension. Since they would not receive a salary, they would not benefit from the earnings disregard, and thus could not be better off. Indeed they would be worse - off unless all their expenses were paid for.

As the Administration appears to admit, work relief per se does not save money since families continue to receive their AFDC benefits while in work relief and there are increased administrative costs. However, their savings projection of $86 million from the AFDC-U provision and $49 million from extending the current optional program for all AFDC families to a mandatory program is based solely on a theory of sanctions and deterrence, that families will be deterred from seeking aid or will suffer a reduction or a termination of aid because of their failure to meet some part of the requirements. Leaving aside the validity of these estimates, creating "savings" through the creation of more onerous burden to the receipt of aid is a new high or perhaps low in callousness. It is true that so many conditions could be attached to AFDC as to make it practically impossibly for any family to establish or retain eligibility. However, this hardly speaks to the value of such a condition.

Work relief is not a job and requiring individuals to perform work under such circumstances diminishes not just them but the society that supports such approach. Welfare recipients want to work but like you and I, they want jobs that give them the same status and benefits as any other individual performing similar

work. Work relief projects have not provided training or increased employability. Indeed it is not even fruitful to debate whether or not these projects could be turned into useful training programs since there is no funding provided for such purpose.

Minor children who have income of their own such as social security benefits based on the earnings of a deceased parent would be forced to contribute that income to meet the needs of their siblings. This proposal would include all children living with half, or full, or sisters and brothers, except for disabled children receiving SSI benefits. The provision would deprive over 100 thousand children who are fortunate enough to have income of their own the benefit of that income even though it is no more than what they personally need. For example, a child receiving social security on the earnings record of a deceased parent, would not have an opportunity to try to save some of that money for educational needs, even though she can no longer receive either social sucurity benefits or AFDC for that purpose. Similarly, where the child's income comes from a personal injury award designed to make up for some damage caused by a tragic accident, she may well need the full amount to meet her increased needs as a result of the accident. It is hard to believe that government could seriously contemplate shifting its responsibility to meet the needs of poor children to the backs of other low-income children. (-$63 million)

Children of absent servicemen would be denied benefits despite the fact of their poverty. The current Administration first tried to cut off benefits to children of servicemen during

its California tenure but was blocked by a United States Supreme Court ruling that a parent who was absent from the home because of military service was as absent as any other, and therefore that his children could not be denied aid if they were otherwise needy. The Administration now argues that children are receiving AFDC because "military personnel" are shifting their support responsibility to the public and that the law should be changed in this way to stop this. First, denying aid to the children will not insure that the absent parent will provide them with adequate support. Secondly, many of these children are being supported to the best of their absent parent's ability and are still needy. Indeed, the California children in the aforementioned case were receiving allotments from their absent parents but these amounts were far below their needs because of the low pay of their parents. It is indeed sad that military pay is not adequate to meet family needs but it is not the children who should pay. ($16 million)

The program of Emergency Assistance for Families would be eliminated. Supposedly the energy assistance program would be broadened to allow provision of aid for the types of emergencies that are now met under EAF. However, there would clearly be no requirement that any specific amount of aid for these items be provided under energy assistance to poor families with children under 21, those currently served by EAF and the result would be as good as repeal. Even if there were such a requirement, the result would nonetheless be a diminution of the aid available to such families, since the Administration is not only proposing elimination of EAF funding but is also proposing that funds for the

energy assistance program be cut over $500 million below 1982 expenditures. (-$60 million)

States would also be required to round benefits to the next lowest dollar and would be barred from paying benefits for any period prior to the date of application. Currently states are permitted to pay benefits back to the first day of the month of application and a few states do so. Families do not show up at the welfare center the day after they become poor. Paying back to the first day of the month takes these debts into account and at least gives the family a full month's grant to help deal with the bills they accumulated in that month. (round benefits - $10 billion/date of application - $14 million)

Federal matching would be reduced if state error rates exceed 3%, and this tolerance level would decline 1% a year to 0 in FY 1986. This is simply a straightforward reduction in federal matching. There is no way in which errors can ever be totally eliminated, and there is a point at which the money spent to further reduce errors is more than the cost of such erros. Tying a reduction in federal matching to error rates is particularly pernicious, since it encourages states to take any action necessary to avoid overpayments and payments to ineligibles, including risking erroneous denials and terminations, and underpayments. Thus poor children will be hurt three times over. States will be more inclined to erroneously deny aid. Their benefits will be cut to make up for any lost federal funding. Attachment of such stringent penalties to the results of Quality Control reviews will destroy any hope

that the system can serve as an effective tool for identifying and correcting causes of errors. (-$234 million)

Federal matching for the Work IncentiveProgram would be eliminated. Despite the Administration's repeated emphasis on work requirements for AFDC recipients, it is proposing to eliminate the only federally funded employment and training program specifically earmarked for AFDC recipients. Admittedly the program has had only limited success in providing opportunity for training and in finding jobs for recipients but that seems the inevitable result of the fact that it has never been funded above $365 million. Simply eliminating the program without providing any federally funded replacement obviously is not going to provide any more training or find any more jobs, and as is obvious, work relief is not a funded replacement program. (-$245 million)

The SSI Cuts Proposed for 1983

One could easily lose sight of the significance of the proposed SSI cuts of $241 million when the amounts are seen in juxtaposition with the AFDC cuts. However, the proposed limits on aid for the disabled poor are as fundamental as the AFDC changes and equally represent a rejection of any societal responsibility for those who are in need because of factors beyond their control.

Benefits would be rounded down to the next lower dollar and would only be paid back to the date of application rather than to the first day of the month in which the application is filed. Currently, SSI benefits are paid back to the first day of the month of application, if the applicant was eligible in that month, regardless of when the application was actually filed. Starting the payment period with the date of application ignores the fact that the individual is not newly poor on that date and it is simply one more way in which a needy individual receives less than what she needs. (rounding benefits: $20 million savings; paying from date of application: $40 million savings, 550,000 recipients receiving reduced first month payment)

A needy disabled individual would not be entitled to benefits unless the disabling impairment was expected to last for at least two years and the impairment was of a type that was medically disabling per se. Requiring a two year duration ignores the fact that the individual is currently in need because of the disability. Indeed there is no rational basis for any durational test in a needs based income maintenance program where the only reasonable questions are whether the individual does in fact have income below

the eligibility standard, and have a disabling impairment which precludes her from being able to perform work that could provide her with an income above those standards. The fact that a person may be less disabled in four or five months is not going to allow her to meet her needs now.

It is equally irrational to look soley at the medical severity of an impairment and its impact upon the average or typical person. An impairment that only limits the ability to perform sustained heavy work may not be a major work impediment for a literate individual with good office skills but it imposes far different limitations on an illerate woman who has done nothing but domestic work all her life. This limitation is especially inappropriate in a means tested program where the individuals are more likely to be low skilled, and its impact is demonstrated by the Administration estimate that it will deny aid to 80,000 people a year. It is also likely that these changes would have a spillover effect in AFDC since a number of AFDC families include a disabled parent. (24 month rule: $45 million savings; preponderance of medical factors: $75 million savings.)

The $20 disregard would be eliminated. Under current law, the first $20 of monthly income of any SSI applicant or recipient is disregarded or not counted in determining eligibility for and the amount of the SSI benefit. The elimination of this disregard would probably affect mainly individuals who are receiving both SSI and social security benefits because their social security benefits are so low that they are below the SSI benefit levels. ($15 million savings.)

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While the current cutback proposals and those adopted last year have been presented in the name of economic necessity it would be unfair to their proponents to see them merely as the products of such necessity. The alterations involved go far beyond simply achieving savings to achievement of a radical restructuring or alteration of the programs, and one could expect that their champions would be as likely to have espoused them in times of budget surplus. Indeed, the budgetary pressures seem to serve more as an excuse for asking Congress to dispense with a reasoned orderly examination of their merits, then as an explanation of their genesis. The consistent cutting away at benefits for those who have earned income is an admitted attempt to turn the program away from looking at actual needs and to denying the legitimate demands of low wage earners for some supplementary assistance when their wages alone cannot meet their family's needs. The emphasis on work requirements as a punitive force both denies the value of child-rearing itself and adopts the premise that poverty is the fault of the poor. Indeed if there is a theme, it appears to be that -- that government has no responsibility to help the poor to become non-poor and to assist those who are in transition or cannot achieve self-sufficiency on their own. It is simply and directly a rejection of all of the slow and painfully achieved progress that has been made since our nation first recognized its fundamental obligation to relieve the poverty of children in 1935.

CURRENT AFDC AND FOOD STAMP BENEFIT LEVELS FOR FAMILIES OF THREE AND FOUR WITH NO OTHER INCOME

Prepared by the Center on Social Welfare Policy and Law

February 10, 1982

State	FAMILY OF THREE					FAMILY OF FOUR				
	AFDC		FOOD STAMPS	COMBINED AFDC/FOOD STAMP BENEFITS		AFDC		FOOD STAMPS	COMBINED AFDC/FOOD STAMP BENEFITS	
	Needs Standard [a]	Benefit Level [b]	Benefit Level [c]	Federal Share [d]	% of Poverty [e]	Needs Standard [a]	Benefit Level [b]	Benefit Level [c]	Federal Share [d]	% of Poverty [e]
† Alabama 10/1/81	$384.00	$118.00	$183.00	88.68%	51.10%	$480.00	$148.00	$231.00	88.73%	53.84%
• Alaska 7/1/81										
a) child only	508.00	508.00				571.00	571.00			
b) w/adult(s)	571.00	571.00	172.00	61.57	100.68	634.00	634.00	229.00	63.27	97.96
† Arizona **, 6 7/1/80	233.00	202.00	164.00	65.78	62.14	282.00	244.00	202.00	66.08	63.35
† Arkansas 10/1/81	234.00	122.00	183.00	88.86	51.78	273.00	142.00	232.00	89.43	53.13
• California ** 7/1/81	506.00	506.00	73.00	56.30	98.30	601.00	601.00	95.00	56.82	98.86
† Colorado 12/1/81										
a) child only	333.00	274.00				442.00	364.00			
b) 1 adult	380.00	313.00	131.00	66.36	75.38	460.00	379.00	161.00	66.51	76.70
c) 2 adults	396.00	326.00	127.00	65.66	76.91	481.00	396.00	156.00	65.77	78.41
• Connecticut * 7/1/81	$426.64	$426.64	$97.00	59.26%	88.90%	$500.99	$500.99	$125.00	59.98%	88.92%
• Delaware 10/1/79	266.00	266.00	145.00	67.64	69.78	312.00	312.00	181.00	68.36	70.03
* D.C. 2/1/82	586.00	299.93	135.00	65.52	73.84	715.00	366.17	165.00	65.53	70.03
• Florida **, 5 2/1/82	209.00	209.00	162.00	76.29	62.99	246.00	246.00	201.00	76.84	63.49
† Georgia 10/1/81	366.00	183.00	170.00	82.52	59.93	432.00	216.00	210.00	82.90	60.51
• Hawaii ** 7/1/78	468.00	468.00	162.00	62.86	92.92	546.00	546.00	217.00	64.22	94.20

Current AFDC and Food Stamp Benefit Levels, page 2

State	FAMILY OF THREE: AFDC Needs Standard [a]	AFDC Benefit Level [b]	FOOD STAMPS Benefit Level [c]	COMBINED AFDC/FOOD STAMP BENEFITS Federal Share [d]	% of Poverty [e]	FAMILY OF FOUR: AFDC Needs Standard [a]	AFDC Benefit Level [b]	FOOD STAMPS Benefit Level [c]	COMBINED AFDC/FOOD STAMP BENEFITS Federal Share [d]	% of Poverty [e]
† Idaho **, [1] 7/1/81	$570.00	$313.50	$131.00	75.62%	75.47%	$641.00	$352.55	$169.00	76.63%	74.08%
† Illinois * 10/1/81										
a) child only	373.00	225.00				469.00	288.00			
b) w/adult	486.00	302.00	134.00	65.37	74.02	593.00	368.00	164.00	65.41	75.57
†† Indiana ** 1/1/80	307.45	255.00	148.00	72.62	68.42	363.20	315.00	180.00	72.46	70.31
• Iowa 7/1/79	360.00	360.00	117.00	66.44	80.98	419.00	419.00	144.00	66.77	79.97
• Kansas * 7/1/81	328.00	328.00	127.00	65.76	77.25	374.00	374.00	163.00	67.42	76.28
•• Kentucky 7/1/80	188.00	188.00	169.00	83.12	60.61	235.00	235.00	204.00	82.84	62.36
† Louisiana * 1/1/82	$505.00	$190.00	$168.00	82.41%	60.78%	$620.00	$234.00	$205.00	82.33%	62.36%
§ Maine 7/1/81										
a) child only	327.00	237.00				433.00	314.00			
b) w/adult	415.00	301.00	135.00	79.72	74.02	522.00	378.00	162.00	79.44	76.70
† Maryland										
• 7/1/80	270.00	270.00	144.00	67.39	70.29	326.00	326.00	177.00	67.59	71.49
2/1/82-7/1/82	373.00	270.00	144.00	67.39	70.29	450.00	326.00	177.00	67.59	71.49
• Massachusetts [2] 7/1/80	379.20	379.20	111.00	64.08	83.23	444.50	444.50	141.00	64.74	83.17
§ Michigan *, ** 12/11/81	432.00	395.00	106.00	60.58	85.06	538.00	492.00	127.00	60.26	87.93
• Minnesota 7/1/81										
a) child only	362.00	362.00				426.00	426.00			
b) 1 adult	446.00	446.00	85.00	61.69	90.15	520.00	520.00	119.00	62.88	90.77
c) 2 adults	431.00	431.00	96.00	62.70	89.47	509.00	509.00	122.00	63.21	89.63
§ Mississippi 10/1/78	220.00	96.00	183.00	92.21	47.37	252.00	120.00	233.00	92.30	50.14

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† Missouri										
7/1/80	$312.00	$248.00	$151.00	75.37%	67.74%	$365.00	$290.00	$188.00	75.96%	67.90%
• Montana **										
1/1/82										
a) child only	140.00	140.00				185.00	185.00			
b) w/adult(s)	306.00	306.00	133.00	75.84	74.53	392.00	392.00	157.00	75.25	77.98
• Nebraska										
6/1/81	350.00	350.00	120.00	68.81	79.80	420.00	420.00	149.00	69.09	80.82
† Nevada										
7/1/81										
a) child only	168.00	142.00				224.00	189.00			
b) w/adult(s)	285.00	241.00	153.00	69.42	66.89	341.00	288.00	189.00	69.81	67.76
• New Hampshire **										
6/1/79	346.00	346.00	121.00	69.93	79.29	392.00	392.00	157.00	71.02	77.98
• New Jersey										
7/1/80	360.00	360.00	117.00	62.26	80.98	414.00	414.00	151.00	63.36	80.26
• New Mexico [2]										
7/1/81	$248.00	$248.00	$151.00	79.61%	67.74%	$281.00	$281.00	$191.00	80.47%	67.05%
• New York *,**,[3]										
7/1/81	424.00	424.00	107.00	60.78	90.15	514.70	514.70	132.00	60.91	91.86
† N. Carolina										
10/1/81	384.00	192.00	167.00	82.78	60.95	420.00	210.00	212.00	83.98	59.94
• North Dakota										
11/1/81										
a) child only	255.00	255.00				315.00	315.00			
b) w/adult(s)	357.00	357.00	118.00	71.52	80.65	496.00	496.00	126.00	69.79	88.35
† Ohio										
6/1/81	431.00	263.00	146.00	71.13	69.44	515.00	327.00	177.00	70.87	71.59
•• Oklahoma										
7/1/79										
a) child only	234.00	234.00				301.00	301.00			
b) w/adults	282.00	282.00	140.00	73.21	71.65	349.00	349.00	170.00	73.04	73.72
• Oregon **,3,5										
7/1/81										
a) child only	$180.73	$180.73	$	%	%	$240.88	$240.88	$	%	%
b) 1 adult	320.59	320.59	175.00	69.47	84.14	375.79	375.79	213.00	69.88	83.63
c) 2 adults	344.40	344.40	168.00	68.28	86.99	390.24	390.24	208.00	69.22	84.98
• Pennsylvania *										
1/1/80	318.00	318.00	130.00	69.32	76.06	382.00	382.00	160.00	69.54	76.99
• Rhode Island [3]										
7/1/81										
a) April-Nov.	367.27	367.27	115.00	67.84	81.88	420.05	420.05	149.00	68.83	80.83
b) Dec.-March	452.67	452.67	115.00	66.33	96.38	517.76	517.76	149.00	67.21	94.71

State	FAMILY OF THREE: AFDC Needs Standard [a]	AFDC Benefit Level [b]	FOOD STAMPS Benefit Level [c]	COMBINED AFDC/FOOD STAMP BENEFITS Federal Share [d]	% of Poverty [e]	FAMILY OF FOUR: AFDC Needs Standard [a]	AFDC Benefit Level [b]	FOOD STAMPS Benefit Level [c]	COMBINED AFDC/FOOD STAMP BENEFITS Federal Share [d]	% of Poverty [e]
¶ S. Carolina 10/1/81	$187.00	$132.77	$183.00	87.71%	53.61%	$229.00	$162.59	$226.00	87.77%	55.20%
• South Dakota ** 7/1/81	321.00	321.00	129.00	77.31	76.40	361.00	361.00	167.00	78.25	75.00
†† Tennessee 1978	179.00	122.00	183.00	87.41	51.78	217.00	148.00	231.00	87.71	53.84
†† Texas [2,6] 6/1/81	168.00	118.00	183.00	87.14	51.10	201.00	141.00	233.00	87.63	53.13
† Utah 7/1/81	536.00	367.00	115.00	76.12	81.83	640.00	438.00	144.00	76.40	82.67
† Vermont *,** 7/1/81	691.00	477.00	82.00	73.20	94.91	782.00	540.00	113.00	74.03	92.76
†† Virginia * 7/1/80	$283.00	$255.00	$148.00	72.63%	68.42%	$339.00	$305.00	$183.00	72.96%	69.32%
†† Washington *,[3,5] 12/1/81										
a) Area 1	458.00	440.00	123.00	60.92	95.59	536.00	515.00	152.00	61.39	94.74
b) Area 2	425.00	408.00	133.00	62.29	91.85	503.00	483.00	162.00	62.56	91.62
†† West Virginia [2] 2/1/77	275.00	206.00	163.00	82.11	62.65	332.00	249.00	200.00	82.23	63.78
† Wisconsin *,[5] 8/1/81	556.00	473.00	83.00	64.29	94.40	662.00	563.00	106.00	64.67	95.03
• Wyoming ** 12/1/79	315.00	315.00	130.00	64.61	75.55	340.00	340.00	173.00	66.86	72.87
• Guam ** 7/1/80	$255.00	$255.00	$230.00	86.86%	71.53%	$300.00	$300.00	$298.00	87.46%	73.83%
† Puerto Rico [4] 11/1/81	180.00	90.00	162.00	91.07	42.78	228.00	114.00	202.00	90.98	44.89
• Virgin Is. 8/1/80	209.00	209.00	190.00	86.90	67.74	263.00	263.00	236.00	86.82	70.88

Footnotes

a The AFDC needs standard is the dollar amount used by the state to determine whether a family of a given size is financially eligible for assistance.

b The AFDC benefit level is the payment that would be made to a family of the size indicated which had no countable income.

c The Food Stamp benefit level is the amount of the food stamp coupons that would be provided to a family that had no income other than the AFDC benefit shown in column 2, if there were no other individuals in the household and the family qualified for an excess shelter deduction of $55. This shelter deduction represents the average shelter deduction for all food stamp households in 1980, including those households that did not claim a shelter deduction. In the case of Puerto Rico, Guam, and the Virgin Islands no shelter deduction was factored in due to insufficient data on shelter costs and therefore the amounts shown may somewhat underestimate the actual food stamp benefit levels that would be available to these families. No food stamp benefits were computed for AFDC child only units since in most cases these units would be part of a larger household. The Food Stamp benefit figures were computed by the Center on Budget and Policy Priorities.

d The federal share of the Combined AFDC and Food Stamp Benefits is, for all states but Arizona and Texas, the percentage of the particular combined benefit amount that is currently paid for from federal funds rather than from state or local funds. This means, for example, that, in Alabama, the federal government pays for $266.93 out of the combined benefit of $301 (AFDC $118 + F.S. $183 = $301). (For Texas and Arizona, see note 6.) There is no percentage computation for child only units because there is no food stamp computation for this category.

e The % of poverty is the percentage of poverty level income that is provided by the Combined AFDC/Food Stamp Benefits. For the 48 contiguous states, D.C., Puerto Rico, and the Virgin Islands, the current official poverty level established by the Office of Management and Budget is $589 per month ($7070/year) for a non-farm family of 3 and $704 per month ($8450/year) for a non-farm family of 4. The figures for Alaska are $738 and $881 per month, respectively, and for Guam and Hawaii they are $678 and $810 per month, respectively. There are no poverty level computations for child only units since there are no food stamp computations for this category.

• Indicates those states that "pay full need" which means that the state bases the AFDC payment on the difference between countable income and the needs standard. In these states the benefit level is the needs standard.

•• Indicates those states that 'pay full need" but have a maximum needs standard.

Kentucky - needs standards for families of 7 or more is $345

Oklahoma - needs standards for families of 9 or more is $629

† Indicates those states which base the AFDC payment on the difference between countable income and a reduced payment level, i.e., a payment level which is less than the needs standard. In these states the figure shown as the benefit level is the reduced payment level.

†† Indicates those states which base the AFDC payment on either a) the difference between countable income and a reduced payment level or b) the family maximum, whichever is lower. In these states, except for Indiana, the maximum does not affect payments for families of 3 and 4 and therefore the figure shown as the benefit level is the reduced payment level.

Indiana - maximum varies by family size (for families of 3 $255 and for 4 $315)

Tennessee - maximum $220 (benefit levels for families of 7 or less are less than the maximum)

Texas - maximum $300 (benefit levels for families of 11 or less are less than the maximum)

Virginia - maximum varies by geographic region ($381 for region used here - benefit levels for families of 5 or less are less than the maximum)

Washington - maximum $859 (benefit levels for families of 7 or less are less than maximum)

W. Virginia - maximum $254 (benefit levels for families of 4 or less are less than the maximum)

§ Indicates those states which determine the AFDC payment by subtracting countable income from the needs standard and paying a percent of the deficit or, in the case of Mississippi, paying the lesser of a percent of the deficit or a maximum amount. With the exception of Mississippi the amount shown as the benefit level is the amount that results from applying the percentage to the needs standard.

Maine - 72.5% of deficit

Michigan - 91.5% of deficit

Mississippi - 75% of deficit or, if less, maximum which varies by family size ($96 for family of 3, $120 for family of 4)

So. Carolina - 71% of deficit

* Indicates those states that use different AFDC needs standards and benefit levels for different parts of the state. Amounts appearing in the table reflect those that apply in the area which covers the largest number of AFDC families in the state. As explained below, these amounts are not necessarily the highest standards and benefit levels in the state.

Connecticut - has 3 different area shelter standards, amounts shown reflect the middle cost shelter standard

Illinois - has 3 different area needs standards, amounts shown reflect those for the highest cost area which includes Chicago

Kansas - has 5 different area shelter standards, amounts shown reflect the second highest shelter standard

Louisiana - has 2 different area needs standards -- one for urban areas and one for rural areas, amounts shown are the higher urban standards

Michigan - has 6 different area shelter standards and 2 different area utility/heating fuel standards, amounts shown reflect the shelter maximums and utility/heating fuel standards applied in the fourth highest cost area which includes Detroit

New York - has a separate shelter standard for each of 58 counties, amounts shown reflect the shelter maximums in New York City which is one of the higher shelter standard areas in the state

Pennsylvania - has 4 different area needs standards, amounts shown reflect those for one of the two middle range areas

Vermont - has 2 different area shelter standards, amounts shown reflect the lower shelter maximum which applies in all but one county of the state

Virginia - has 3 different area needs standards, amounts shown are those for the middle cost area

Washington - has 2 different area needs standards, both sets of figures are shown because Area I covers 55% of AFDC families in the state and Area II covers 45%

Wisconsin - has 2 different area needs standards, amounts shown are those for the higher cost area

** Indicates states that provide less than benefits listed if the family has shelter costsbelow maximums.

Arizona - uses lower standards if family has no shelter costs (the lower standard are $183 for family of 3 and $220 for family of 4, and the lower benefit levels are $158 for family of 3 and $190 for family of 4)

California - shelter and utility components of standards are assigned dollar values which are deducted from the benefit level only if family has no shelter or utility costs (these values are $163 for shelter and $28 for utilities for a family of 3 and $179 and $29 respectively for a family of 4)

Florida - uses lower standards if family has no shelter costs ($129 for family of 3 and $164 for family of 4)

Guam - amounts listed include maximums for shelter and utilities ($75 and $15 respectively, regardless of family size), amount used to determine payment includes these maximums or, if less, actual costs

Hawaii - amounts listed include maximum allowances for shelter ($240 for families of 3 and $265 for families of 4), amount used to determine payment includes these maximums or, if less, actual shelter costs

Idaho - amounts listed for needs standards include maximum allowances for shelter ($142 for families of 3 and 4), amount used to determine payment is based on the maximums or, if less, actual shelter costs

Indiana - amounts listed for needs standards include maximum allowances for shelter ($100 regardless of family size), amount used to determine payment is based on maximums or, if less, actual shelter costs

Michigan - amounts listed for needs standards include maximum allowances for rental ($130 for family of 3 and $160 for family of 4) amount used to determine payment is based on maximums or, if less, actual shelter costs

Montana - uses lower standards for a unit that includes an adult if the family has no shelter costs ($154 for family of 3 and $200 for family of four)

New Hampshire -amounts listed include a maximum allowance for shelter ($125 regardless of family size), amount used to determine payment includes this maximum allowance, or, if less, actual shelter costs

New York - amounts listed include maximum allowances for shelter ($194 for family of three and $218 for family of four), amount used to determine payment includes maximums or, if less, actual shelter costs

Oregon - shelter component of standards is assigned a dollar value which is fully deducted from the benefit level only if family has no shelter costs and partially deducted if the family lives in subsidized housing or in shared housing and has actual shelter costs below the assigned value (these values are $54.22 and $72.26 for child only units of 3 and 4, $96.18 and $112.72 for units of 3 and 4 with one adult, and $103.32 and $117.07 for units of 3 and 4 with two adults)

South Dakota - amounts listed include maximum allowances for shelter and for utilities ($120 for shelter and $43 for utilities regardless of family size), amount used to determine payment is based on these maximum allowances, or, if less, actual shelter cost

Vermont - amounts listed for needs standards include a maximum allowance for shelter ($157 for all size families), amount used to determine payment is based on the maximum allowance, or, if less, actual shelter costs

Wyoming - uses lower standards if family has no shelter costs ($230 for family of 3 and $270 for family of 4)

1 The needs standards and benefit levels vary based on composition of family and age of children; amounts shown for family of 3 assume one adult, one child age 6-13, and one child over 13, and amounts shown for family of 4 assume one adult, one child under 6, and two children ages 6-13.

2 Indicates those states that pay once-a-year supplement above benefit levels.

Massachusetts -clothing allowance of $50 per child

New Mexico - clothing allowance for school age children of $41 per child

Texas - payment of $110 per child

W. Virginia - school clothing allowance of $50 for each child age 5 and older

3 Indicates that standards listed include a specific allowance for increased energy costs provided by such states in their AFDC grants. Such allowances are not counted as income in determining the family's food stamp allotment.

New York - statewide allowance for home energy needs (for families of 3 $30 and for families of 4 $38.70)

Oregon - statewide allowance for home energy needs with different amounts for child only units and units with an adult (for families of 3 with adult(s) $155.59, child only $87.71, and for families of 4 with adult(s) $167.79, child only $107.51)

Rhode Island - statewide allowance for home energy needs in the winter months (December - March), (amount is the difference between standards for winter and non-winter months)

Washington - statewide allowance for home energy needs (for families of 3 $100 and for families of 4 $106)

4 The amounts listed assume an allowance of $20 for shelter in the needs standards, assumption based on the fact that the amount allowed for shelter in the needs standard for a family equals the family's actual costs and $20 is the average amount which has actually been allowed for families of three and four.

5 Indicates states where amounts listed are affected by recent court decisions.

Florida - State court held state had not met state law requiring updating of needs standards and therefore enjoined the state from applying the 150% cap on eligibility. The state has appealed.

Oregon - United States District Court enjoined use of the child only standard on the ground that it unlawfully assumed that children's shelter costs were being met by non-AFDC adults in the household but the order was stayed pending appeal

Washington - Amounts shown are in effect pursuant to a court order which invalidated lower standard adopted by the state and the state is appealing that order. Since entry of the order, the state legislature in mid-December passed legislation, which has not yet been implemented, that establishes needs standards that are higher than the amount shown but authorizes the welfare department to base payments upon a reduced standard if it so chooses.

Wisconsin - State had been using a separate child only standard but this standard was declared invalid by a United States District Court.

6 Indicates that amounts indicated as federal percentage of combined AFDC/Food Stamp benefits may not reflect current matching rates. Because these states claim AFDC matching under the basic "403" formula rather than the alternate "1118" formula, the actual percentage of total payments cannot be determined until after the expenditure period. The percentages listed for these states reflect the federal share of AFDC payments for fiscal 1980, the last year for which information is available.

Arizona - not permitted to use the "1118" formula because it does not have a medicaid program; federal funds paid 38% of AFDC expenditures for fiscal 1982, while percentage under "1118" would have been 61.4%

Texas - receives a higher share under "403" than would receive under "1118" because its benefits are low; federal funds paid 67.2% of AFDC expenditures for fiscal 1980 while "1118" percentage would have been 58.3%

RANKING OF STATES BASED ON CURRENT AFDC BENEFIT LEVELS FOR A FAMILY OF THREE WITH NO OTHER INCOME *

Prepared by the Center On Social Welfare Policy and Law

February 10, 1982

1. Alaska	$571.00	18. Kansas	$328.00	34. Missouri	248.00
2. California	506.00	19. South Dakota	321.00	New Mexico	248.00
3. Vermont	478.00	20. Oregon	320.59	35. Nevada	241.00
4. Wisconsin	473.00	21. Pennsylvania	318.00	36. Florida	209.00
5. Hawaii	468.00	22. Wyoming	315.00	Virgin Islands	209.00
6. Minnesota	446.00	23. Idaho	313.15	37. West Virginia	206.00
7. Washington	440.00	24. Colorado	313.00	38. Arizona	202.00
8. Connecticut	426.64	25. Montana	306.00	39. North Carolina	192.00
9. New York	424.00	26. Illinois	302.00	40. Louisiana	190.00
10. Rhode Island [1]	395.74	27. Maine	301.00	41. Kentucky	188.00
11. Michigan	395.00	28. District of Columbia	299.93	42. Georgia	183.00
12. Massachusetts	379.20	29. Oklahoma	282.00	43. South Carolina	132.77
13. Utah	367.00	30. Maryland	270.00	44. Arkansas	122.00
14. Iowa	360.00	31. Delaware	266.00	Tennessee	122.00
New Jersey	360.00	32. Ohio	263.00	45. Alabama	118.00
15. North Dakota	357.00	33. Guam	255.00	Texas	118.00
16. Nebraska	350.00	Indiana	255.00	46. Mississippi	96.00
17. New Hampshire	346.00	Virginia	255.00	47. Puerto Rico [2]	90.00

* For those states that vary benefit levels by region, we have used the amount for the region with the largest number of AFDC families which is not necessarily the region with the highest benefit level in the state. For states that vary benefit levels by composition of the assistance unit, we have used the benefit levels that apply to assistance units that include one adult.

1 Figure shown arrived at by adding together the benefit levels used for winter and non-winter months and then dividing this annual total by 12 to get a more representative monthly figure for comparison purposes.

2 Figure shown assumes a shelter standard of $20.

COMPARISON OF CURRENT AFDC BENEFIT LEVELS FOR A FAMILY OF THREE WITH NO OTHER INCOME TO JULY 1975 BENEFIT LEVELS *

Prepared by the Center on Social Welfare Policy and Law

February 10, 1982

State	Current Benefit Levels [a]	July '75 Levels [b]	$ Change	% Change [c]
Alabama	$118.00	$108.00	$ 10.00	9.26%
Alaska	571.00	350.00	221.00	63.14
Arizona	202.00	163.00	39.00	23.94
– Arkansas	122.00	125.00	-3.00	-2.40
California	506.00	293.00	213.00	72.70
Colorado	313.00	217.00	96.00	44.24
Connecticut	$426.64	$296.00	$130.24	44.00%
Delaware	266.00	221.00	45.00	20.36
D.C.	299.93	243.00	56.93	23.43
Florida	209.00	144.00	65.00	45.14
Georgia	183.00	123.00	60.00	48.78
Guam	255.00	'75 figures not available		
Hawaii	468.00	428.00	40.00	9.35
† Idaho	$313.15	$300.00	$ 13.15	4.38%
Illinois	302.00	261.00	41.00	15.71
Indiana	255.00	200.00	55.00	27.50
Iowa	360.00	294.00	66.00	22.45
Kansas	328.00	263.00	65.00	24.71
Kentucky	188.00	185.00	3.00	1.62
Louisiana	190.00	128.00	62.00	48.44
Maine	$301.00	$176.00	$125.00	71.02%
Maryland	270.00	200.00	70.00	35.00
Massachusetts	379.20	259.00	120.20	46.41
† Michigan	395.00	333.00	62.00	18.62
Minnesota	446.00	330.00	116.00	35.15
Mississippi	96.00	48.00	48.00	100.00
Missouri	248.00	120.00	128.00	106.67
Montana	$306.00	$201.00	$105.00	52.24%
Nebraska	350.00	210.00	140.00	66.67
† Nevada	241.00	195.00	46.00	23.59
New Hampshire	346.00	308.00	38.00	12.34
New Jersey	360.00	310.00	50.00	16.13
New Mexico	248.00	169.00	79.00	46.75
New York	$424.00	$394.00	$ 30.00	7.61%
North Carolina	192.00	183.00	9.00	4.92
North Dakota	357.00	283.00	74.00	26.15
Ohio	263.00	204.00	59.00	28.92
Oklahoma	282.00	217.00	65.00	29.95
– Oregon	320.59	337.00	-16.41	-4.87
Pennsylvania	318.00	296.00	22.00	7.43
Puerto Rico	$ 90.00 [1]	$ 43.00 [1]	$ 47.00	109.30%
Rhode Island	395.74 [2]	278.00	117.74	42.35
South Carolina	132.77	96.00	36.77	38.30
South Dakota	321.00	289.00	32.00	11.07
Tennessee	122.00	115.00	7.00	6.09
Texas	118.00	116.00	2.00	1.72
Utah	367.00	252.00	115.00	45.63
Vermont	$477.00	$306.40	$170.60	55.68%
Virginia	255.00	245.00	10.00	4.08
Virgin Islands	209.00	131.00	78.00	59.54
† Washington	440.00	315.00	125.00	39.68
West Virginia	206.00	206.00	0.00	0.00
Wisconsin	473.00	342.00	131.00	38.30
Wyoming	315.00	235.00	80.00	34.04

* For those states that vary benefit levels by region, the amount listed is for the region with the largest number of AFDC families. For states that vary benefit levels by composition of the assistance unit, we have used the benefit levels that apply to assistance units that include one adult.

a Source: "Current AFDC and Food Stamp Benefit Levels ... "; February 10, 1982; Center on Social Welfare Policy and Law.

b Source: "Aid to Families With Dependent Children: Standards for Basic Needs; ... July 1975"; Table 3; DHEW Pub. No. (SRS) 76-03285; NCSS Report D-2 (7/76).

c Indicates the percentage change in benefit level amounts from July 1975 to the present. During this same period the Consumer Price Index rose by 73.4%.

– Indicates a state in which the current AFDC benefit level is less than the benefit level that was in effect in July 1975.

† Indicates a state in which the current AFDC benefit level is lower than it had been at some point within the last two years.

1 Assumes a shelter standard of $20.

2 One-twelfth of the annual benefit derived from combining benefit levels used for winter and non-winter months.

Chairman FORD. Thank you very much, Ms. Blong. I also want to thank you for the support that you have given to the legislation that I have introduced in the Congress.

I would also like to say to the two witnesses that are before us today, it is people like you who will make the difference, speaking out for the poor and disadvantaged of this country. I would personally like to thank the two of you for appearing before the committee and speaking out, saying the things that you believe and the things that you have witnessed throughout the communities of this Nation.

Again, thank you very much.

Ms. BLONG. Thank you very much, Mr. Ford.

I would like to say, on that personal note, it does in fact get hard, but nothing so renews people like me as meeting with our clients, talking to them, and recognizing what they are going through to survive, and realize in that context how little we are doing.

Chairman FORD. Thank you. Our next witness is the Honorable Dan Glickman, I want to welcome my colleague before this subcommittee.

STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. GLICKMAN. Thank you, Mr. Chairman. I am going to try to be brief, and I will ask unanimous consent that my statement be made a part of the record.

Chairman FORD. It will be made a part of the record.

Mr. GLICKMAN. I do have two letters, one from the Kansas Funeral Directors Association and the other from the Wisconsin Funeral Directors Association, and I would ask that they appear as part of my testimony.

Chairman FORD. I will be happy to do that. You know, I am an old funeral director myself.

Mr. GLICKMAN. Thank you.

Mr. Chairman, this bill, H.R. 5911, grew out of similar bills introduced by both Mr. Stark and myself separately. We kind of joined forces. It would add two closely related classifications to the resources excluded from evaluation in determining eligibility for SSI and, therefore, medicare. Those two things are burial plots of reasonable value as determined by the Secretary of HHS and insurance policies, irrevocable trusts or plans for burial or cremation of an individual not in excess of $1,500. These would be excluded from the assets test.

I think it is important to adopt this legislation to show that our Government is not insensitive. Also, adoption of the legislation will eliminate a strong disincentive for people to make plans to take care of expenses they know will have to be covered eventually.

Basically, Mr. Chairman, the reason we introduced this legislation is HHS has gone back and forth on whether possession of burial plots counts as an asset in a person's possession of assets in order to count against the resource limitation and determining eligibility for SSI and medicaid. And it appears that now they have decided that since the statute does not specifically exclude burial

plots and insurance policies relating to the purchase of a burial plot, they should be included in resource calculation. There are already certain assets excludable, as you well know, including a home and household goods, an automobile and property.

For the life of me I cannot understand why a burial plot would be included in a person's assets. As I point out in my statement, you cannot bodily sell it. In fact, there are many State laws that severely restrict the sale of burial plots. Therefore, it is not a disposable asset. Therefore, I cannot figure out why one would want to include it as an asset for the purposes of determining eligibility under SSI and medicaid. I just think that it really does not make any sense.

There are a number of provisions in State law which recognize the need to protect burial plots and plans from forced disposal. In fact, in State after State bankruptcy laws specifically exclude burial plots from attachment. Almost all States allow some funds to be set aside by those seeking welfare expenses to cover burial expenses as we are proposing for Federal programs such as this bill.

I would ask that the subcommittee include in the hearing record, as I have said before, the letters that I have cited.

This legislation would cost the Federal Government about $5 million a year in terms of cost to the SSI and medicaid programs, according to the CBO. That is the information given to me. But if you look at the cost from the perspective of government in general, I think the figure would be considerably lower than when it is viewed solely from the isolated balance sheets of the Federal Treasury.

I just think it makes sense not to include a burial plot under a certain amount of value as an asset for SSI and medicaid, and I would hope that the committee could adopt legislation. Inasmuch as the Secretary of HHS has determined to the contrary, that is the purpose of Mr. Stark's and my legislation. I am glad to have the opportunity to address this committee.

[The prepared statement and letters referred to follow:]

STATEMENT OF HON. DAN GLICKMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, first let me thank you for including H. R. 5911 among the bills you are considering today. I hope that such prompt scheduling of the bill for hearings will bode well for its future. The bill which my colleague and a member of this Committee, Mr. Stark, and I have introduced is straight forward. It would add two closely related classifications to the resources excluded from valuation in determining eligibility for Supplemental Security Income and, by reference, for Medicaid. Under our bill,

--- burial plots and niches for the individual and immediate family members of reasonable value as determined by the Secretary of Health and Human Services, and

--- insurance policies, irrevocable trusts, arrangements or plans for burial or cremation of the individual or spouse of reasonable value, but not in excess of $1500

would be excluded from the assets test.

Adoption of this legislation will

--- show that our government is not insensitive;

--- make sure that the federal government does not leave itself in the position of adding to the costs of state and local government operations; and

--- eliminate a strong disincentive for people to make plans to take care of expenses they know will have to be covered eventually.

Unfortunately, as a result of present regulatory policies, we are in just such a position at the present time.

As for sensitivity, I'm sure my colleagues understand how important it can be, particularly to people nearing the end of their lives, to know that arrangements for their burial are secure. This is especially true in cases where an

individual is expecting to be buried in a family burial plot which, in many cases, has been in the family for years if not for generations.

Over the last several years, the Department of Health and Human Services has gone back and forth on whether or not possession of burial plots, spaces in family plots, or insurance plans or trust accounts to cover burial expenses should be counted against the resources limitation in determining eligibility for SSI and Medicaid. It appears that they have now decided that, since the statute does not specifically cite these as "excludable", they must be included in the resource calculation. Resources which are "excludable" already include a home, certain household goods and personal effects, an automobile, property -- business or non-business -- for self support, and reasonable amounts of life insurance.

That decision, in my view, is unfortunate because it presents people who need help from SSI or Medicaid with a most unpleasant choice: to give up their burial plots or plans -- often with great practical difficulty -- or to pass up needed benefits often to the detriment of their health and well-being. To make sure that this is reversed and doesn't continue to be an administrative ping-pong ball, we can adopt H. R. 5911 and put the matter to rest.

Let me focus for a minute on the practical aspect of this problem, from the perspective of the person who might be faced with the decision of whether or not to get rid of a burial plot. Under current law, in at least twenty-seven states there are restrictions of various forms limiting the ability to sell cemetery property. Just to give you a feel for what individuals across the country might encounter in the way of problems, let me cite a few examples:

--- In a number of states, Indiana for example, it is unlawful to "sell or buy an interment space or spaces for the purpose of resale at a profit." Clearly, when a burial plot has been in the family possibly for a number of years, the value will have increased. That can make it rather difficult to sell without making some sort of profit. Application of such laws would be subject to considerable discretion in interpretation as well.

--- Other states require approval by management of the cemetery in question before a plot can be sold or transferred. In fact, explanation of the Maryland law notes that this limitation is "a striking exception to the general rule of free transfer." In New Jersey, three-fifths of the Board of Managers of the cemetery must approve the transfer.

--- Some states, including California and Montana, require approval by the cemetery management before family plots can be split up, and in Maine, once registered as a "family burying ground" it is explicitly stated in the law that ". . . it shall remain to him and his heirs as a burial place forever."

--- In Minnesota, sale or transfer of a burial plot involves payment of a transfer fee albeit small. For individuals with few enough resources to be seeking SSI or Medicaid help, even a small fee can be hard to bear.

Restrictions like these can present hurdles difficult to pass over even if an individual has decided to dispose of their burial plot. At the very least, they can cause delay in dispensing with the property, and that delay can keep individuals from securing much-needed financial or medical help in a timely fashion.

With regard to my point about the federal government adding to the costs of state and local government operations, it is important to note that in over half of the states burial costs fall on governments, state or county, when indigents with no resources die. At the state level, allowances range from $150 to $800 to cover burial costs. In those states where this problem is left to local governments, the allowances range as high as $1,075 allowed by North Dakota counties. I would remind my colleagues on the Committee that these state and county governments are left with little choice but to cover these costs, <u>but that it is the case only when individuals do not have the resources to cover the costs themselves</u>.

The current federal policy, by requiring that burial plots, plans and trusts, if they cause an individual's assets to exceed the resource limitation, be disposed of to secure Medicaid and/or SSI, in effect creates a disincentive for individuals to plan ahead to cover these necessary costs and an incentive

for people to decide instead to leave the cost to others including those state and county governments.

According to the Congressional Budget Office, this legislation -- by allowing a number of additional individuals to qualify for SSI and Medicaid -- will cost the federal government about $5 million per year. I am convinced that, if you look at the cost from the perspective of government in general, that figure would be considerably lower than when it is viewed solely from the isolated balance sheets of the federal treasury. When we are looking generally at our concept of federalism, we certainly should take that broader perspective.

I would also note, for the Committee's information, that there are a number of provisions in state law which recognize the need to "protect" burial plots and plans from forced disposal. In state after state, bankruptcy laws specifically exclude burial plots from attachment. Also, almost all states allow some funds to be set aside by those seeking welfare assistance to cover burial expenses as we are proposing for these federal programs in H. R. 5911.

I will, of course, be glad to answer any questions that you might want to raise; however, before I do, let me sum up quickly. I think we have put together a tightly drawn piece of legislation here that will allow those who administer the SSI and Medicaid programs to be sensitive to and supportive of the desires of individuals to plan ahead and take care of their burial plans and expenses. I think the legislation is designed so that it will not be abused, and I think it is in the best spirit of America by encouraging people to help themselves. Over fifty Members of the House from both sides of the aisle have cosponsored this legislation since it was introduced late last month. I hope this Committee will move it forward without delay.

Thank you.

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April 13, 1982

Congressman Dan Glickman
1507 Longworth Bldg.
Washinton, D.C. 20515

Dear Congressman Glickman:

First of all, on behalf of the entire Kansas Funeral Profession, I wish to thank you for your concerns regarding those people on public assistance and their need for assurance of receiving the funeral of their choice.

However, there have been some changes in Kansas' situation since I first discussed this matter with your aides.

As I understand it, the Social Security people have been allowing irrevocable items such as pre-need funeral plans and insurance policies to be removed as a resource. This allowance has been by their regulation process. In Kansas, we have been able to work this on insurance policies, but till now had no provision for pre-need funeral plans to be irrevocable.

This, too, has changed. As of July 1, the Kansas law (House Bill 2952 enclosed) will be changed to permit the first $2,000 of a pre-need funeral plan PLUS any accumulated interest to be made irrevocable and thus be exempted as a resource. If your bill is passed in its present form, it would limit any Kansan to $1,500, and probably not work to the end of which I am sure you intended.

I have a couple of alternatives to suggest. Either exempt any state that has provisions for irrevocable pre-need funeral plans and/or insurance policies; or raise the amount to $2,500 or $3,000 in your bill.

Other states that provide for irrevocable plans and/or policies that I am immediately aware of, are Wisconsin and Missouri. Perhaps dialogue with funeral people from those two states would be helpful.

I really wish you to know how much we appreciate your concern, and actually, your contact led us to make an effort for House Bill 2952. After finding out how positive and receptive the Legislature and Governor were in this matter, I feel that other states could handle this if they truly desired to, which would alleviate the necessity for federal legislation.

Thank you very much, Congressman. Please let me know if I can be of help.

Kindest regards,

Jim Snyder
Executive Secretary

cc: KFDA Board
Howard Raether

As Amended by House Committee

Session of 1982

HOUSE BILL No. 2952

By Representative Lowther

2-10

AN ACT concerning prepaid funeral plans; concerning irrevocability thereof; exempting same from medical assistance eligibility requirements; amending K.S.A. 16-303 and 39-709 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 16-303 is hereby amended to read as follows: 16-303. (a) Except as authorized by K.S.A. 16-308, all payments made under ~~said~~ *such* agreement, contract or plan, and any earnings or interest thereon, shall remain with such bank, trust company or savings and loan association until the death of the person for whose service the funds were paid: ~~*Provided,* Funds shall be paid to the purchaser of the merchandise or services at any time when demand is made to said bank, trust company or savings and loan association, and upon such payment the contract shall terminate~~ **or, except as provided in subsection (c), until demand for payment is made by the purchaser of the merchandise or services to the bank, trust company or savings and loan association, and upon such payment to the purchaser, the contract shall terminate**.

(b) At the option of a purchaser, any installment contract may provide for additional payments by the purchaser for the cost of group credit life insurance at such rate as is approved from time to time by the insurance commissioner. In the event of the death of the purchaser, the proceeds shall be treated as funds in accordance with K.S.A. 16-304.

(c) At the option of the purchaser, such agreement, contract or plan may be made irrevocable as to the first $2,000 of the funds paid plus any interest and earnings accumulated under the agreement, contract or plan. This option shall not prohibit the

purchaser to designate a different funeral home at any time prior to death, after written notice to the current funeral home, and upon such notification all documents and funds shall be transferred as necessary.

Sec. 2. K.S.A. 39-709 is hereby amended to read as follows: **39-709.** (a) *General eligibility requirements for assistance for which federal moneys are expended.* Subject to the additional requirements below, assistance in accordance with plans under which federal moneys are expended shall be granted to any needy person who:

(1) Has insufficient income or resources to provide a reasonable subsistence compatible with decency and health. Where a husband and wife are living together the combined income or resources of both shall be considered in determining the eligibility of either or both for such assistance unless otherwise prohibited by law. The secretary, in determining need of any applicant for or recipient of assistance shall not take into account the financial responsibility of any individual for any applicant or recipient of assistance unless such applicant or recipient is such individual's spouse or such individual's minor child. The secretary in determining need of an individual may provide such income and resource exemptions as may be permitted by federal legislation.

(2) Is a citizen of the United States or is an alien lawfully admitted to the United States and who is residing in the state of Kansas. If any person transfers or assigns property without adequate consideration or for the purpose of becoming eligible for assistance (A) within the two-year period immediately preceding the application if the value of the property so transferred or assigned is $12,000 or less or (B) within a period of time in excess of two years, as established by rules and regulations of the secretary, if the value of the property so transferred or assigned is in excess of $12,000, such person shall thereby become ineligible to receive assistance for such period of time as the value of the property assigned or transferred would have reasonably maintained such person at a standard compatible with decency and health. If any person without the consent of the secretary assigns

or transfers property without adequate consideration while on the assistance rolls, after making application for assistance or while receiving assistance, such person shall thereby become ineligible to receive assistance for such period of time as the value of the property assigned or transferred would have reasonably maintained such person at a standard compatible with decency and health.

(b) *Assistance to families with dependent children.* Assistance shall be granted under this act to any dependent child, or relative, subject to the general eligibility requirements as set out in subsection (a) of this section, who resides in the state of Kansas or whose parent or other relative with whom the child is living resides in the state of Kansas. Such assistance shall be known as aid to families with dependent children.

(c) *Applying for or receiving aid to families with dependent children constitutes an automatic assignment of support rights and limited power of attorney.* By applying for or receiving aid to families with dependent children such applicant or recipient shall be deemed to have assigned to the secretary of social and rehabilitation services, on behalf of the state, any accrued, present or future rights to support from any other person such applicant may have in such person's own behalf or in behalf of any other family member for whom the applicant is applying for or receiving aid. The assignment of support rights shall automatically become effective upon the date of approval for or receipt of such aid without the requirement that any document be signed by the applicant or recipient. The assignment shall remain in full force and effect so long as such person is an applicant or recipient of such aid or until such other time as the secretary of social and rehabilitation services and the applicant or the recipient of such aid may agree. Upon the discontinuance of such aid, the assignment shall remain in effect as to unpaid support obligations due and owing at the time of the discontinuance of such aid until the claim of the secretary of social and rehabilitation services for repayment of the unreimbursed portion of such aid is satisfied. By applying for or receiving aid to dependent children assistance the applicant or recipient is also deemed to have appointed the

secretary of social and rehabilitation services, or the secretary's designee, as an attorney in fact to perform the specific act of negotiating and endorsing all drafts, checks, money orders or other negotiable instruments representing support payments received by social and rehabilitation services in behalf of any person applying for or receiving such assistance. This limited power of attorney shall be effective from the date social and rehabilitation services approves the application for aid and shall remain in full force and effect as to the respective support rights herein assigned.

(d) *Eligibility requirements for assistance, the cost of which is not participated in by the federal government.* Subject to the additional requirements below, assistance shall be granted to any needy person who does not qualify for financial assistance in a program in which the federal government participates who:

(1) Has insufficient income or resources to provide a reasonable subsistence compatible with decency and health. Where a husband and wife are living together the combined income or resources of both shall be considered in determining the eligibility of either or both for such assistance unless otherwise prohibited by law. The secretary in determining need of any applicant for or recipient of assistance shall not take into account the financial responsibility of any individual for any applicant or recipient of assistance unless such applicant or recipient is such individual's spouse or such individual's minor child. In determining the need of an individual, the secretary may provide for income and resource exemptions.

(2) Is a citizen of the United States or is an alien lawfully admitted to the United States and who is residing in the state of Kansas except that assistance shall be granted to a transient person pending verification of residence, including the cost of transportation to the transient's place of residence, but in no event shall such assistance be given for a period exceeding 30 days in any twelve-month period. If any person transfers or assigns property without adequate consideration or for the purpose of becoming eligible for assistance (A) within the two-year period immediately preceding the application if the value of the

property so transferred or assigned is $12,000 or less or (B) within a period of time in excess of two years, as established by rules and regulations of the secretary, if the value of the property so transferred or assigned is in excess of $12,000, such person shall thereby become ineligible to receive assistance for such period of time as the value of the property assigned or transferred would have reasonably maintained such person at a standard compatible with decency and health. If any person without the consent of the secretary assigns or transfers property without adequate consideration while on the assistance rolls after making application for assistance or while receiving assistance, such person shall thereby become ineligible to receive assistance for such period of time as the value of the property assigned or transferred would have reasonably maintained such person at a standard compatible with decency and health. If any person is found guilty of the crime of theft under the provisions of K.S.A. 39-720, such person shall thereby become ineligible to receive assistance under the provisions of this subsection (c). If any person is found guilty by a court of competent jurisdiction of any state other than the state of Kansas of a crime involving welfare fraud, such person shall thereby become ineligible to receive assistance under the provisions of this subsection. Such assistance shall be known as general assistance.

(e) *Requirements for medical assistance for which federal moneys or state moneys or both are expended.* When the secretary has adopted a medical care plan under which federal moneys or state moneys or both are expended, medical assistance in accordance with such plan shall be granted to any person who is a citizen of the United States or who is an alien lawfully admitted to the United States and who is residing in the state of Kansas, whose resources and income do not exceed the levels prescribed by the secretary. In determining the need of an individual, the secretary may provide for income and resource exemptions and protected income and resource levels. *The secretary shall exempt principal and interest held in* irrevocable *trust pursuant to ~~K.S.A. 16-301 to 16-309, inclusive~~* subsection (c) of K.S.A. 16-303, and amendments thereto, *from the eligibility requirements of appli-*

cants for and recipients of medical assistance. Such assistance shall be known as medical assistance.

(f) *Eligibility for medical assistance of resident receiving medical care outside state.* A person who is receiving medical care including long-term care outside of Kansas whose health would be endangered by the postponement of medical care until return to the state or whose health would be endangered by travel to return to Kansas, may be determined eligible for medical assistance if such individual is a resident of Kansas and all other eligibility factors are met. Persons who are receiving medical care on an ongoing basis in a long-term medical care facility in a state other than Kansas and who do not return to a care facility in Kansas when they are able to do so, shall no longer be eligible to receive assistance in Kansas unless such medical care is not available in a comparable facility or program providing such medical care in Kansas. For persons who are minors or who are under guardianship, the actions of the parent or guardian shall be deemed to be the actions of the child or ward in determining whether or not the person is remaining outside the state voluntarily.

Sec. 3. K.S.A. 16-303 and 39-709 are hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

WISCONSIN FUNERAL DIRECTORS ASSOCIATION
5920 W. North Avenue / Milwaukee, Wisconsin 53208 / Phone: (Area Code 414) 453-3060
Harold J. Ruidl – Executive Director & Counsel

April 9, 1982

The Honorable Dan Glickman
House of Representatives
Washington, D. C. 20515

Dear Representative Glickman:

We are writing at the suggestion of our friends Jim Snyder, executive director of the Kansas Association,and Howard Rather, executive director of our National Association. We very much appreciate the good intentions you have in sponsoring H.R. 5911 and thank you for your interest. The purpose of this letter is to submit for your consideration the problem I believe H.R. 5911 would create in Wisconsin, Kansas and some other states presently authorizing irrevocable funeral trusts.

Jim says Kansas now has a law permitting irrevocable funeral trusts as well as accumulating interest thereon. Wisconsin has permitted the first $1500 of a funeral trust to be made irrevocable since 1978 and this year permitted interest on the first $1500 to also be made irrevocable in addition. The Social Security Ad inistration has permitted irrevocable burial trusts without any prescribed maximum (presumably reasonable) under an administrative determination. Any problem authorizing irrevocable funeral trusts is not with the federal government, but instead because irrevocable trusts are not permitted under some state laws.

If H.R. 5911 were to become law may I suggest that it would work to the disadvantage of recipients in Wisconsin as well as Kansas in the following ways:

Line 13, page 2, would permit "an insurance policy or irrevocable trust,...." Presently the law permits a $1500 insurance policy in addition to $1500 liquid assets for a single person ($2250 for a couple) and under the Social Security administrative interpretation an irrevocable trust in an amount determined by state law. Line 13 appears to have the effect of limiting two present provisions (insurance policy or irrevocable trust) to one or the other.

H.R. 5911 prescribes a maximum of $1500 - without interest, which is less than our present laws. This $1500 could and often does include purchase of a cemetery lot, grave opening, outer casket burial receptacle totaling between $500--$750 over and above the amount paid to the funeral director for his merchandise and services.

President John Murray Beaver Dam • President-Elect Norman J. Zarnke Wausau • Vice-President Jerome Kleczka Milwaukee • Corp Sec-Treas Marc Eernisse Port Washington • Past President W. Grant Schmidt Wauwatosa

A law specifically authorizing irrevocable trusts would supercede the foregoing Social Security administrative interpretation, terminating Social Security's present policy.

The foregoing are my own observations and conclusions which I submit for the consideration of you, your staff or any other interested party. We are sending copies of this letter to Jim and Howard for their further consideration and comment, all of which we invite in a spirit of friendly exchange. Our Wisconsin irrevocable trust program is extremely popular and a source of great satisfaction to Title XVI and XIX recipients. The program is presently working extremely well. Social Security is currently considering the effect of our law permitting interest to also be made irrevocable, so far temporarily delaying the implementation of that part of our program. Incidentally similar questions have been raised with former bills in Congress; at that time we contacted Congressman Clement Zablocki of Milwaukee who was most helpful.

Our sincerely thanks for your consideration. If we can provide any additional information, we would very much appreciate the opportunity to do so.

Very truly yours,

HJR/mv

CC - Mr. James Snyder
Mr. Howard Raether

Chairman FORD. Thank you very much, Mr. Glickman, and we certainly appreciate your coming before the committee today. As you know your cosponsor of this legislation, Pete Stark, is a member of the subcommittee. I am sure we are going to move into a markup session as soon as possible.

Mr. GLICKMAN. Thank you very much.

Chairman FORD. Thank you.

The next panel will be the National Welfare Employment Alliance. Morton Sklar, the legal counsel, Jobs Watch; Ms. Mary Ann Martorana, Coalition for Basic Human Needs in Boston; and Sandy Helling, Public Work Project of the Welfare Grant Coalition in New York City.

STATEMENT OF MORTON SKLAR, LEGAL COUNSEL, JOBS WATCH, ON BEHALF OF THE NATIONAL WELFARE/EMPLOYMENT ALLIANCE

Mr. SKLAR. Good afternoon, Chairman Ford. My name is Morton Sklar. I am the legal counsel of the Jobs Watch Project of the Center for National Policy Review at Catholic University Law School. I am here representing my own group, Jobs Watch, and also on behalf of the newly formed coalition of organizations concerned about workfare and other welfare issues called the National Welfare/Employment Alliance.

Testifying with me are representatives of two of the other groups participating in the alliance, Mary Ann Martorana of the Coalition for Basic Human Needs in Boston, and Sandy Helling of the Public Work Project in New York.

I would like to read to you the joint statement of concerns on workfare that was drafted by the participating groups of the alliance only a month ago:

The National Welfare/Employment Alliance is an informal network of approximately 30 local, State, and national organizations dealing with workfare and welfare issues, including church, labor and community-based groups. This statement of concerns on workfare issues was drafted at our inaugural meeting in Washington, D.C. on March 16 and 17, 1982, attended by the groups on the attached list. All the groups participating in the alliance have not yet had an opportunity to formally endorse this statement.

We support the principle of full employment and endorse government programs that provide the unemployed with real jobs, at a breadwinner's wage, with all of the rights and benefits of employment. Workfare, requiring welfare recipients to work off their grants without additional compensation, at inadequate rates of pay, does not meet these standards.

Workfare does not provide wages, benefits and training opportunities that would build employment capabilities and lead to unsubsidized jobs. It displaces regularly employed workers, removing reasonably compensated jobs from the labor market. It threatens every worker because it undermines collective bargaining agreements and existing equitable wage structures. It promotes the use of child care arrangements that do not maintain the health and well-being of children. It threatens the integrity of the family. It denies the right of workers to organize and unionize, to negotiate benefits and working conditions, and to have adequate, established grievance procedures. It tends to be used to penalize welfare recipients, with no relationship to improving job potential.

Perhaps I could save a little bit of time by presenting the rest of the statement for the record and just summarizing.

Chairman FORD. We will make the entire statement a part of the record, and you may summarize it for us, if you do not mind.

Mr. SKLAR. I think that would be a good idea.

I think one thing that I have been aware of in listening to the testimony today and also through the experience that we have had at Jobs Watch is that there are a lot of myths about what workfare is all about. Congress ought to give very careful consideration to the accuracy of these myths as it considers the alternatives of adopting either a mandatory or an optional workfare requirement, both of which we oppose very strenuously.

Most important is the issue of cost. Every objective research report, every administering agency that has been dealing with the process of workfare, and the General Accounting Office's own review of the food stamp workfare program, all conclude that workfare costs more, sometimes substantially much more than it saves.

A second inaccurate myth is that workfare raises participants' self-esteem, that it improves their job skills and makes them more job ready. It cannot do that because the work assignments that are most often made available are highly demeaning. They do not improve job skills or provide a stepping stone to regular jobs. Because of the very nature of the make work assignments that are involved, they do not provide real jobs or job training. Work requirements that provide real job training and do increase job potential are not workfare. They are part of a more comprehensive employment and training program. That is what the Federal Government should support.

Another problem is the fact that too many jurisdictions are using the workfare requirement as a punitive measure. It is used as a back door to get people off the welfare rolls.

The last point is that welfare recipients are interested in working, contrary to contrary claims. But they want their work to be meaningful, at a living wage, and not at the expense of other workers whose jobs they are assigned to fill at cut rates and without the recognized status and benefits of regular employment.

Sandy Helling and Mary Ann Martorana can provide you with a community-based view of some of the problems that have taken place where workfare has been put into effect. The stories are rife about workfare participants following janitors around the halls doing the same broomwork that has been done before; people who have been coerced to consider military recruitment as a "job referral;" people who have been taken out of education and training programs that would lead very shortly to real jobs so that they could participate in job clubs or workfare.

Mary Ann and Sandy can provide specific examples of these kind of issues.

Chairman FORD. Also, if you would comment on the new AFDC disregards I know they do not relate to workfare directly, but if you have information about the impact and effect they are having in your communities I would appreciate hearing it.

[The prepared statement follows:]

TESTIMONY ON WORKFARE

Presented by

MORTON M. SKLAR SANDRA HELLING MARY ANN MARTORANA

ON BEHALF OF THE NATIONAL WELFARE EMPLOYMENT ALLIANCE

Statement of Concerns
on Workfare Programs

The National Welfare/Employment Alliance is an informal network of approximately thirty local, state and national organizations dealing with welfare and workfare issues, including church, labor and community based groups. The following statement of concerns on workfare issues was drafted at our inaugural meeting in Washington, D.C. on March 16 and 17, 1982, attended by the groups on the attached list. All of the groups participating in the Alliance have not yet had an opportunity to formally endorse the statement.

We support the principle of full employment, and endorse government programs that provide the unemployed with real jobs, at a breadwinner's wage, with all of the rights and benefits of employment. Workfare, requiring welfare recipients to "work off" their grants without additional compensation, at inadequate rates of pay, does not meet these standards. Workfare:

Does not provide wages, benefits and training opportunities that would build employment capabilities and lead to unsubsidized jobs;

Displaces regularly employed workers, removing reasonably compensated jobs from the labor market;

Threatens every worker because it undermines collective bargaining agreements and existing equitable wage structures;

Promotes the use of child care arrangements that do not maintain the health and well-being of children;

Threatens the integrity of the family;

Denies the right of workers to organize and unionize, to negotiate benefits and working conditions, and to have adequate, established grievance procedures; and

Tends to be used to penalize welfare recipients, with no relationship to improving job potential.

Contrary to the arguments made by its proponents, workfare is not a cost-saving measure. Every research evaluation of workfare has found that the costs of the program exceed the amounts "saved" by forcing recipients from the welfare rolls. The General Accounting Office's latest report on Food Stamp demonstrations programs in fourteen states found that:

> "Reductions in food stamp benefits, including sanctions imposed, and lower administrative costs ranged from $21 to $29 per person."

At the same time,

> "Total administrative costs were about $50 for each person referred to workfare."

Even counting estimated values of the work performed as part of the savings still means that costs exceed gains by up to $9 person.

In New York State, ten years of experience with workfare in the state's general assistance program shows a fiscal 1981 cost of $7.5 million, with gains of $7.28 million, or a net loss of $200,000. The State of California's own study of its Community Work Experience Program found no significant savings in average size of grants, or in the number of participants leaving welfare, compared to counties that did not implement the program. In fact, there was a smaller drop in enrollment in the CWEP counties. (A more detailed summary of research showing the high costs involved in the administration of workfare is attached.)

Imposition of a mandatory workfare requirement by the federal government also will run counter to the Reagan Administration's avowed principle of increasing state discretion. Only nine of the fifty states submitted proposals to the federal government last year (under the Ombnibus Budget Reconcilliation Act's optional workfare provisions) proposing the adoption of a workfare component under their welfare programs. Several states, including Massachusetts, an early workfare supporter, have taken legislative or administrative action specifically rejecting mandatory workfare.

We urge that the problems and concerns we have experienced in the operation of workfare that are outlined in this statement be carefully considered by Congress, and by state officials and legislatures, as they take up proposals to extend workfare requirements.

At the federal level, President Reagan's mandatory workfare proposal should be rejected by Congress. Employment and training programs should be developed and adopted that:

1. Emphasize job creation and training needs;

2. Tie-in more effectively various welfare and employment programs;

3. Preserve the valuable training potential of the WIN program;

4. Maintain limits on potentially harassing repetitions of job club and other job search activities;

5. Prevent job placements that would reduce the income of recipients; and

6. Encourage continued support for the working poor instead of forcing them back to larger welfare grants as non-workers.

At the local level, states should reject the workfare option. If state legislatures do adopt a workfare requirement its use should be prohibited when unemployment in the sponsoring jurisdiction exceeds six percent, since its effect in these circumstances is to deny jobs to unemployed workers.

States should consider a variety of voluntary options other than workfare that are designed to enhance job skills and job readiness through legitimate training. Assurances for the adequacy of day care arrangements should be a part of every employment and training approach. Preservation and encouragement of training, and improvement of job skills should be the priority, along with local efforts to help create the type of employment opportunity that can reach welfare recipients and the long-term unemployed.

ATTENDANCE LIST

Inaugural Meeting of the National Workfare Alliance
Washington, D.C. March 16, 1982

Name	Organization and Address	Telephone No.
Douglas Cater	Public Welfare Coalition 30 North Michigan Room 1410 Chicago, Illinois 60602	312-236-8308
Merulrine Anthony	Society of Urban Ministry 1500 8th Court West Birmingham, Alabama 35208	205-786-0730
Adlene Abstain	Welfare Coaltion Southern Christian Leadership Conference 4909 Abstain Court Louisville, Kentucky 40218	502-584-1254 ext.472
Beth Drennen	Reform of Welfare 45 West Lockwood St. Louis, Missouri 63119	314 968-9449
Mary Griswold	Worker Rights Institute 818 East Juneau Milwaukee, Wisconsin 53202	414-276-7767
Helen Rockstroh	League of Women Voters of Pennsylvania 1675 Bridle Path Drive Lansdale, Pennsylvania 19446	215-855-2901
Carol Whyte Mary Ann Mortorana Janet Diamond Jeanne Dever	Coalition for Basic Human Needs 10 West Street Boston, Massachuseets 02111	617-451-3445
Ann Johnson	Welfare Rights Organization 22 Mountain Avenue Malden, Mass.	617-322-4125
Eugene Martin-Leff	National Employment Law Project 475 Riverside Drive New York City, New York 10015	212-870-2121
Selma Goode	Westside Mothers 1128 Oakman Street Detroit, Michigan 48238	313-883-0933
Anne Joseph	Kentucky Task Force on Hunger and Human Needs 1500 West Main Street Lexington, KY.	606-255-4402
at Langley	Family Services Association 1346 Conn. AVe. N.W. Washington, D.C. 20036	202-822-8390

Sandy Helling Lillian Zlowick Willie Bethea	Welfare Grant Coalition Public Work Project Organizing Committee 225 Park Avenue South 7th floor New York City, N.Y. 10003	212-777-5000 ext 184
Scarlette Hunley	Tri-Cities Community Awareness Council 606 Harding St. St. Petersburg, Va. 23803	804-733-3456
Saradel Childs	Food Action Research Council 1319 F Street, N.W. Washington, D.C. 20004	202-293-5060
Vickie Freeman Roberts Maurice Roberts	Philadelphia Welfare Rights 1231 North Franklin Phila., Pa 19122	215-684-3600
Liz Esposito	Coalition of California Welfare Rights Organizations 1370 West Street Redding, California 96001	916-241-3565
Cathy Bass	Welfare Rights Organization 4291 Market St. San Diego, California	714-264-3321
Hulbert James	Coalition of Third World Organizations 1459 Columbia Road, N.W. Washington, D.C! 20009	202- 387-0619
Mary Logan	AFL-CIO 815 16th Street, N.W. Washington, D.C. 20006	202-637-5208
Shirley Brown	HUMAN 240 South College Y.S., Ohio 45387	513 762-9444
Teresa Brown	HUMAN 243 Emming Street Cincinnati, Ohio 45219	513-281-6150
Pamela Davis	HUMAN 103 North Irwin Street Dayton, Ohio 45403	513-258-2492
Morton Sklar Jim Byrne	Jobs Watch 1751 N Street, N.W. Washington, D.C. 20036	202-659-1062

(Other invitees on attached mailing list)

Additional Invitees to Workfare Meeting

March 16 and 17, 1982

Kevin Aslanian
Welfare Recipients League
1505 Santa Clara Street
San Jose, California 95116

Janet Bernan
Center for Human Services
1001 Huron Road
Cleveland, Ohio 44115

Ann Broden
Sourthern Organizing Committee for
Economic and Social Justice
P.O. Box 811
Birmingham, Alabama 35201

Phyllis Brown
Lynn Welfare Rights Organization
360 Washington Street
Lynn, Massachusetts 01901

Daphne Busby
Sisterhood of Black Single Mothers
1360 Fulton Street
Room 423
Brooklyn, New York 11216

Ric Cagen
Virginia Poverty Law Center
700 East Maine Street
Suite 200
Richmond, Virginia 23219

Farm Labor Organizing Committee
714½ South St. Clair Street
Toledo, Ohio 43609

Ella Bragg
Michigan Welfare Rights Organization
1125 Oakman Boulevard
Detroit, Michigan 48238

Dan Hendrickson
Council of Southern Mountains
Drawer M
Clintwood, Virginia 24228

Lori Holland
People Advisory Service
400 Craig Street
Schenectady, New York 70307

Richard McHugh
Legal Aid Society
425 West Muhammad Ali Boulevard
Louisville, Kentucky 40201

Matthew Melmed
Project FEAD
285 Park Avenue
P.O. Box 1107
Bridgeport, Connecticut 06602

Karen Smith
Assistant Counsel
AFSME District Council 37
140 Park Place
New York, New York 10007

Lucy Williams
Massachusetts Law Reform
2 Park Square
Boston, Massachusetts 02116

Khatib Waheed
Human Development Corp.
1421 N. Jefferson
St. Louis, Missouri 63106

Mary Lee Allen
Children's Defense Fund
1520 New Hampshire Avenue, NW
Washington, D.C. 20036

Duffy Cambell or June Zeitlin
National Women's Law Center
1751 N Street, NW.
Washington, D.C. 20036

Al Gonzalez
National Association of Social Workers
1425 H Street, NW.
Washington, D.C. 20005

Carol Mollner
PRAXIS
1620 South 37th Street
Kansas City, Kansas 66106

96-377 O - 82 - 25

Workfare or Unfair: An Overview of Work Requirements In AFDC and Food Stamp Programs

I. What Is Workfare?

Workfare is one of several new and more stringent work requirements that are being imposed or considered for recipients of federal welfare (AFDC) and food stamp programs in order for them to continue to receive benefits.

Under workfare (or work relief), recipients are required to "work off" the value of benefits by performing government service assignments for the number of hours, at the federal or state minimum wage, that would equal their grants. Recipients are not considered regular employes and do not receive employee status or benefits other than workmen's compensation. Their assignments are not considered regular jobs. They receive no additional pay.

The most common form of workfare is called community work experience, or simply work experience.

Forms of workfare have been applied by some states for many years under general assistance or home relief programs. That is the state version of welfare that does not receive federal support, and serves indigents such as the severely handicapped or childless who are not eligible for the federal AFDC program. More than nineteen states have had some form of workfare requirement as part of their general assistance grants.—/

—/ The National Association of Counties report, A Study of General Assistance Workfare Programs, February 17, 1978, lists the following states with work relief requirements:

I. Work Relief Established of State Law

Hawaii
Kansas
Illinois
Maryland
Minnesota
Ohio
New York
Utah

II. Work Relief Programs Established at Discretion of Localities

Connecticut
California
Florida
Indiana
Iowa
Maine
Michigan
Montana
New Hampshire
South Dakota
Wisconsin

Several other states have adopted workfare requirements since 1978.

Until late 1981, workfare was prohibited in federally supported welfare programs. Congress eliminated this prohibition in the Omnibus Budget Reconcilliation Act passed last December, by giving states discretionary option to adopt a workfare program under AFDC. Similar discretion was given to states for food stamp benefits under the 1981 Farm Bill.

Four states (Oregon, West Virginia, New York and Massachusetts) have submitted or are submitting plans to the federal Department of Health and Human Services to organize large-scale work experience (workfare) Programs under AFDC. Fourteen states already have food stamp workfare requirements in effect for portions of their state, and much wider application in these and other states is anticipated.

President Reagan's most recent budget proposals would make workfare a mandatory part of welfare nationwide starting in fiscal 1983.

Workfare is not the only type of work requirement being considered or applied, although it is the most stringent. Congress, in the 1981 Budget Act, gave states the option to apply two other forms of work requirements to welfare. Work Supplementation would allow grants to be transferred to employers as a form of job subsidy, in order to encourage job creation efforts for AFDC recipients. No states have adopted this approach. Work Incentive Demonstrations would allow states to change and broaden existing work registration requirements under the WIN program, by adding more extensive job search and placement standards. Nineteen states have filed WIN Demonstration program applications thus far, containing a broad variety of work requirements, including some that come very close to the community work experience workfare model (see section _____ reviewing the states WIN Demonstrations plans).

Some work requirements, other than workfare, can benefit employable

welfare recipients if they are applied in a non-punitive fashion and are designed to improve the recipient's job potential. The desirability of each type of work requirement deserves to be judged independently according to its potential for punitive use, and the degree that it can promote employability.

Workfare, as indicated by experiences under general assistance programs, serves primarily a punitive function, with few redeeming features from the point of view of either the recipient's employability, or the government's cost saving objectives.

II. Does Workfare Save Money?

A primary justification for workfare, and more stringent work requirements generally, is that they will save money by reducing welfare fraud, and by encouraging "employable" recipients to seek unsubsidized jobs in preference to potentially demeaning work assignments. Workfare supporters also claim that work experience helps hone work skills and create a more positive work image for recipients. Experience with workfare measures in general assistance and food stamp programs suggests these arguments are unfounded.

One reason that cost saving estimates frequently are exaggerated is that only a small percentage of AFDC recipients are "employable" and therefore subject to work requirements. Seventy (70) percent are children. A large percentage of the remaining adults are single parents of pre-school children, whose opportunities for work as opposed to child care are severely limited. Childcare arrangements necessary to free these parents for work would involve substantial additional costs.

A second costly feature of workfare is the extensive administrative

expense that is required to monitor and carry out program operations.

GAO Foodstamp Report

A recent U.S. General Accounting Office report evaluated food stamp demonstration projects in seven states.[1] A surprisingly high percentage of recipients, eighty-eight (88), were found to be exempt from food stamp workfare standards, most because they "were unable to work because of age, physical disabilities, or the need to care for persons unable to care for themselves."[2] Administrative costs of applying workfare requirements were found to about cancel out any savings produced, including the value of the work performed by recipients. Cost savings varied from a $5 gain per participant to a $9 loss. GAO found that thorough "verification of recipients' reasons for not participating in workfare would create additional and possibly excessive adminstrative burden and cost," but that verification was necessary "to avoid widespread abuse of good-cause /exemption/ provisions."[3]

California CWEP

Other workfare studies echo these reservations. The California Employment Development Department's evaluation of that state's three year Community Work Experience Program, found very low participation rates (2.6 percent of the general assistance beneficiary population) despite manadatory participation,

[1] Insights Gained in Workfare Demonstration Projects, U.S. General Accounting Office, CED-81-117, July 31, 1981.

[2] Letter from Henry Eschwege, Director, GAO, to Representative Paul Findley, July 31, 1981, p. 2.

[3] Appendix IV, p. 26.

and that workfare "did not prove to be administratively feasible or practical."[1] No significant savings was found to have occurred in the average size of grants, or in the number of participants leaving welfare, in counties with mandatory workfare requirements over those with none.[2] In fact, counties with manadatory CWEP experienced a smaller drop in AFDC enrollment than that occurring in non-workfare counties.[3] Overall, the state study found that CWEP failed to achieve "any of its impact objectives."[4]

San Diego Foodstamps

An evaluation of the San Diego food stamp workfare program called from reports prepared by the county found that cost ineffective "was an understatement."[5]

[1] Final Report on California CWEP, State of California, April, 1976, Summary and Conclusions, p. 3.

[2] Id. at 4 and in Section II, pp. 24 and 25.

[3] Id. at Section II, p. 23.

[4] Id at Section II, p. 26.

[5] Fact Sheet For San Diego County's Welfare Reform Plan, Legal Aid Society of San Diego, Oct. 6, 1981, and Workfare Demonstration Project: Six Month Status Report, San Diego Dept. of Human Services Workfare Division, March, 1980.

> "The County literally paid through the nose for the psychological satisfaction of convincing the public that they were doing something about welfare. .../It cost the county $3,197 per month to get a total of .45% of the total foodstamp population to work approximately 2½ days per month at make-work jobs."

San Diego County's own assessment of workfare was that the "Workfare Project is not achieving its objectives," and "is not cost effective."—/

New York General Assistance (Public Works Project)

Only 2.4 percent of New York State's 100,000 home relief recipients were found to be employable under the program. Many state agencies rejected workfare participants because of a lack of adequate supervisory personnel, or other administrative burdens that were deemed excessive.—/

Tazewell County, Virginia Food Stamps

Although participation was high (17 percent), limited private sector jobs in the area made the program "unrealistic and punitive."—/ With respect to the hoped for deterrant effect "there was no evidence that workfare affected the caseload. —/

—/ Six Months Report, supra at 43.

—/ Report on PWP, N.Y. City Bureau of Audit and Control, Office of the Comptroller, E 79-439, 1979.

—/ The Human Costs of Workfare, National Social Science and Law Center, 1981.

—/ Id. at 39.

Massachusetts Work Experience Program

> "Neither of the two /workfare/ treatments tried in MASSWEP produced significant reductions in welfare payments... The cost of MASSWEP... was $459,592. This amounts to $445 per client.... With no significant benefits from work experience either in terms of increased work or reduced welfare costs, the work experience treatment was not cost effective." —/

Utah General Assistance

Utah's workfare program is one of the oldest and largest in the nation, beginning in 1974. According to a 1977 report by HHS, Utah claims a cost of $383,000 for the program, with a welfare spending reduction of $1.5 million. But these claims have been challenged by more objective researchers who

—/Barry Freedman, et.al. An Evaluation of the Massachusetts Work Experience Program, Bradeis University, Center for Employment and Income Studies, 1980.

found "no demonstrable effect on job finding or welfare caseloads."[1] HHS's own report seems to support these doubts, finding that "Job assignments are predominately unskilled and menial...," with a majority of participants complaining "about the lack of skill training and irrelevance of the work experience to the private job market."

Kentucky Work Experience

A voluntary work experience program for AFDC recipients was operated from March, 1979 through October, 1980. The program cost $635,000 in support services for participants and over $700 thousand for administration. Only 130 of 979 participants received jobs.

U.S. Bureau of Family Services

Back in 1961, the Bureau surveyed the twenty-six states then operating some form of workfare in their general assistance or home relief programs. Its study found that work relief costs more than a simple assistance program, with significant additional expenditures for administration and supervision. It also found no significant reduction in the assistance rolls. The potential for reductions was found to be tied more closely to the ability of the general economic situation to produce additional job opportunities than to workfare.[2]

[1] Leonard Hausman and Robert Lerman, Brandeis University, reporting in the Wall Street Journal, April 10, 1981.

[2] Summarized in Goodwin, "Can Workfare Work," Public Welfare, Fall, 1981, at 20.

Summarizing these various studies on workfare requirements, Leonard Hausman, Director of the Brandeis University Center for Employment and Income Studies concluded:

> "Overall, the administrative costs of workfare are likely to exceed any savings in welfare payments. It is plausible to expect the excess of costs over welfare savings would be substantial....We have a President deeply concerned about cutting programs and eliminating waste in government. It would be ironic if one of his few new programs turned out to be a prime example of waste and inefficiency."—/

—/Testimony before the Senate Agriculture Committee, March 30, 1981, summarizing An Evaluation of the Massachusetts Work Experience Program, October, 1980.

Contact: Morton Sklar
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SUMMARY OF THE IMPLEMENTATION OF WORKFARE REQUIREMENTS

(as of April 13, 1982)

1. States with operational workfare programs for AFDC recipients

Total--seven(7)

Alabama (one county)
Idaho
New York (AFDC waivers)
Oklahoma (part of WIN demo)
North Dakota (two counties)
Utah
West Virginia (part of WIN demo)

2. States with workfare legislation pending or just adopted, or plans being considered by welfare agency

Total--Twenty-two(22)

Arizona (part of WIN demo)
Arkansas (part of WIN demo)
California
Colorado (legislation passed)
Georgia (two pilot areas on July 1)
Florida (part of WIN demo)
Iowa (two pilot areas)
Kansas
Louisiana (being considered by agency)
Michigan (AFDC waivers)
Massachusetts (WIN demo--on optional basis)
Mississippi (before legislature)
Missouri (before legislature)
Montana (operational July 1)
Maryland (part of WIN demo)
New Jersey (part of WIN demo)
North Carolina (AFDC waivers)
Ohio (AFDC waivers)
Pennsylvania (legislation passed)
South Carolina (operational in five counties May 1)
South Dakota (WIN Demo)
Washington (operational in two pilot areas June 1)

3. States with workfare programs for general assistance (work relief) recipients

Total--Nineteen (1979 data reported by the National Association of Counties)

4. Jurisdictions with Food Stamp workfare programs

Fourteen jurisdictions applied workfare requirements last year under a demonstration program. Seven of these are still operating. An undetermined number of jurisdictions may apply workfare requirements to Food Stamp recipients under provisions of the Farm Bill of 1981 that have not yet been made operational. Dept. of Agriculture regulations will be issued in April.

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STATEMENT OF MARY ANN MARTORANA, COALITION FOR BASIC HUMAN NEEDS IN BOSTON, ON BEHALF OF THE NATIONAL WELFARE/EMPLOYMENT ALLIANCE

Ms. MARTORANA. Good afternoon, Mr. Chairman. My name is Mary Ann Martorana. I live at 250 Cambridge Street, Boston, Mass., and am a volunteer member of the Coalition for Basic Human Needs, the Massachusetts welfare rights organization. We are members of the National Welfare/Employment Alliance. I am here to testify not only on behalf of myself and my 7-year-old daughter, but also on behalf of the 102,000 families on welfare in my State and on behalf of the 6 million children on welfare and their caretakers throughout the country. I am a welfare mother.

It is time that Congress and the American public realize that aid to families with dependent children is an issue which mainly concerns women and children, and not able-bodied men living a life of luxury on taxpayers' money. The real truth is that nationally 80 percent of all AFDC households are headed by women, and in my State, Massachusetts, 97 percent of all such households are headed by women.

Most of us have major barriers to employment, such as lack of basic education and marketable skills, and access to decent affordable day care for our young children. In this country, the major portion of working women are confined to jobs which pay only minimum wage or slightly above. Even in households with only one child, it is virtually impossible to support a family on these wages while trying to pay full price for decent, safe day care, and all the expenses which go along with being a single working mother living in a one wage earner family.

The Reagan budget cuts of this past October eliminated income disregards for working welfare recipients and caused a major upheaval in day care placements. This impractical and cruel move forced over 20,000 families off AFDC in my State alone, with absolutely nothing to fall back on, and often with no medical insurance or access to care. Many mothers of preschool children who were never on welfare before have been forced to quit their jobs because they could not afford day care and medical expenses that were previously covered because of income disregards.

And at this point I would like to read a statement from a woman who is very well known to me. Her name is Cheryl Langford and she is a black woman and member of the coalition.

My name is Cheryl Langford and I live at 250 Cambridge Street, Boston, Massachusetts. My son Haron is 3 years old and has been a severe chronic asthmatic since he was born prematurely at 7 months. I worked in a factory up to the time I went into labor with Haron and went immediately back to work when I got out of the hospital because I was determined not to go on welfare.

I was able to get title XX day care for him as soon as he was out of the hospital so I could work, even though I did not have a high school diploma. Haron had constant asthma attacks which required special attention and medication, but I remained determined to stay off welfare and work.

Since the budget cuts, I have had to quit work and go on welfare because my licensed day care was taken away. I have to be very careful about where I place my son because he has life-threatening asthma attacks. I have gone to school for my General Education Diploma and have been accepted into electronics school.

Incidentally, this is a very, very bright woman, and her employer, Stone & Weber, Inc., wanted to send her to electronics school.

But because she had to quit the job she lost her opportunity to get her education.

> But I am unable to go to this school because of the budget cuts. I want to go into a skilled trade, but job training programs have been taken away. If they were available, I would soon have a good job which would support me and my son and take us off welfare for good.
>
> I do not want to be on welfare, but the Reagan Administration's economic policy has forced me into it, in spite of all the struggle I went through to remain independent.

Women with children over six now have to pay for vacation and after-school care out of their own meager wages without any deduction allowances or subsidies. My State has tried to compensate for some of the cuts, but our State funds are limited.

Recently I spoke with Dr. Deborah Frank of Boston City Hospital who has testified before Congress this year on child malnutrition. It is her opinion that the recent dramatic increase in cases of severe malnutrition in children is directly attributable to the budget cuts, in spite of the fact that the administration has called the reports "exaggerations."

Last year Children's Hospital in Boston had eight cases of severe child malnutrition. This year they have had over 100 so far. Members of my own organization have found welfare mothers begging in subways in order to buy food for their children, and we are constantly receiving requests for help from our membership in order to buy food for their children. Unfortunately, we do not have the resources to deal with this enormous need, nor are there private agencies which have the resources to do so, in spite of the President's claims to the contrary.

Throughout the country, welfare grants are inadequate to provide for basic human needs of food, shelter and clothing. Recipients have only been able to survive because of supplementary programs and housing aid. These programs are not ineffective or unneeded as the President claims. Hundreds of thousands of poor children have been saved from freezing, starving and being homeless through these programs, as have many old, sick and disabled people.

In a time of severe unemployment and recession, further cutbacks in these programs will have life-threatening consequences. This is not mere rhetoric. It is a fact of life that Congress must face. Poor people have already begun to suffer grave effects from the last round of social program cuts. Another round will be fatal to many. There are still enough people in this society with the moral conscience and the contacts to ensure that the public is made aware of exactly the consequences of placing bombs and business interests above human lives, especially the lives of little children.

The President has proposed a series of changes in AFDC regulations which have the effect of reducing the actual income of welfare families, such as the counting of fuel assistance as income, and counting the income of everyone in the household, even if they do not contribute to the support of the AFDC family, in determining the grant level. Those recipients who live with others in a roommate situation, which includes many of my friends who cannot afford to pay full rent, would lose a portion of their shelter allowance. In a State where a rundown apartment in a poor neighbor-

hood costs $300 without heat, and a two-person household receives $314 per month to live on, the results would be devastating.

The administration has also proposed a forced work program—workfare—which would be mandatory for all States. The State of Massachusetts tried this type of program in 1978 with General Relief recipients who were all male with no child care responsibilities, using CETA funds to finance half of the program. The program was a net loss, and did not produce jobs that led to self-sufficiency. This year the Governor tried to initiate the same kind of program for recipients of AFDC. Through opposition led by us, the Coalition for Basic Human Needs, and church leaders, the proposal was defeated, with the approval and support of our State Legislature.

I would like to remind Congress that the entire AFDC budget which supports a population which is over two-thirds children, over 6 million children, represents less than 2 percent of all Federal transfer payments. In spite of that, it has been one of the most maligned and viciously attacked of all social programs. Very little of the legislation passed on AFDC seems to be based on commonsense and reality. Rather, prejudices, stereotyping and emotional reaction appear to reign supreme.

It is true that we women and children are easy targets, especially when most of our energy is taken up with just trying to survive from day to day. If the so-called welfare problem is to be solved, it will not be by punishing people for losing jobs to cutbacks, shutdowns and foreign competition. Rather, it will be by providing educational and training opportunities for us to develop the skills we need to earn the breadwinner's wages it takes to support our families, and by listening to people like me who have the experience and the understanding of the situation firsthand.

[Attachments to the prepared statement follow:]

Coalition for Basic Human Needs
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DECLINE IN AFDC BENEFITS

1974-1981

(In real dollar terms adjusted for inflation at local rates)

Percent Decline	Number of States Affected	Estimated Levels of Decline Projected Through 1984
50% or more	0	6
40-49.9%	2	12
30-39.9%	16	14
20-29.9%	17	11
10-19.9%	11	3
Less than 10% or some increase	5	5

(Data provided by the Heller School, Brandeis University)

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MDs fear food budget cuts peril babies

BY JOSEPH CAREY

When a young mother from Boston's South End brought her 30-month-old malnourished son to Children's Hospital recently, she accused him of being greedy.

"He wants three glasses of milk a day," she said.

"That's the minimum he should have," she was told by Dr. Deborah Frank, a pediatrician.

And when Frank asked why the mother couldn't provide the three glasses of milk, the woman told her that it was because she had been dropped from a federal program that provides proper nourishment for children of poverty families.

Because of inflation and in anticipation fo federal cutbacks this year, the Special Supplemental Food Program for Women, Infants and Children (WIC) in Massachusetts will receive $1.2 less than last year's budget of $16.3 million. Officials tightened eligibility standards and the number of cases dropped from 39,000 to 30,000.

The young boy from the South End eventually was reinstated in the WIC program and has improved, but physicians like Frank and others are concerned that further cuts may imperil many babies.

President Reagan has called this fear a "great exaggeration." The rate of increased spending for these programs has been cut, not the programs themselves, he said.

But a special check of 99 children brought to Children's Hospital last Thursday showed that 10 percent were undernourished, said Dr. William Bithoney, director of the hospital's comprehensive child health program. Malnutrition usually accounts for 3 to 5 percent of admissions at pediatric academic hospitals.

The WIC program covers babies from before birth to age 5. This is an important period for proper nourishment to ensure normal brain, muscular and skeletal growth.

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C B H N
Welfare Rights Organization

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395

Child malnutrition up, doctors say

Associated Press

Several Boston pediatricians say some children began suffering from malnutrition after they were cut from federal food programs and predict that other youngsters will face a similar fate if Congress passes President Ronald Reagan's next round of budget cuts.

"It's hard to watch kids starve, but that's what we do," said Dr. Jennifer Rathbun at Children's Hospital Medical Center. "There's no question we are seeing more children with malnutrition than we saw a year ago."

The doctors said they have traced some cases of child malnutrition to federal budget cuts, although other children recently diagnosed as malnourished have lost federal funds because their parents didn't pick up proper vouchers.

The cases of child malnutrition in Boston were announced over the weekend by Nancy Amidei, director of the Food, Research and Action Center, a nutrition-lobbying group.

The doctors concede that a malnutrition problem existed before Reagan took office, but contend that the situation has been exacerbated by a downturn in the economy and cuts in food stamps and other nutrition programs.

"We're going to see things get worse if more funds are cut," said Dr. Deborah Frank of Boston City Hospital. "The treatment for malnutrition is food, and we see money for providing poor children with food dwindling."

Ten percent of the children treated at the clinic at Children's Hospital suffer from some degree of malnutrition, said Dr. Rathbun, director of a team of doctors who screen impoverised children for the ailment.

Last January, she said, a woman called her, crying that she had been cut from one welfare program and was about to lose supplemental foods provided by another.

"When I examined her child, she had dropped to second- or third-degree malnutrition," Dr. Rathbun said. "The child wasn't that way three months ago. And, interestingly, the mother had lost 10 pounds."

The Reagan Administration cut $2.3 billion for the food stamp program in fiscal 1982, forcing 875,000 people off the rolls and reducing benefits for about 21 million others. The Administration proposed an additional $2.3 billion cut for 1983.

Reagan also has proposed a 35-percent cut for fiscal 1983 in a $950-million program called Women, Infants and Children (WIC), which provides food to pregnant women and children under five. Nutrition lobbyists say such cuts would drop 200,000 people from the program.

Returning yesterday from a weekend at Camp David, Md., Reagan said such stories were "a great exaggeration." He pointed out that his Administration had not reduced money for nutrition programs, but merely reduced the rate of increase.

Reached by telephone at home over the weekend, Mary Jarrett, the assistant secretary of Agriculture for food and consumer affairs, said she would not comment on the pediatricians' findings until she could review their work.

"There were only 875,000 people out of 22 million across the country cut off the food-stamp program and they weren't all children or in Boston, so I doubt they can attribute it all to the food-stamp program," said Jarrett.

Boston Herald American Monday Apr 12 1982

THEIR VIEW

Social program cuts won't balance Reagan budget

EDWARD MOSCOVITCH

The Reagan budget cannot be balanced simply by reducing welfare and other social programs. They are just too small relative to the total.

In budget year 1981, which began just before the 1980 election, the federal government collected $599 billion in taxes. Had we not changed our tax laws, revenue would have risen by $356 billion by 1985, the last budget of the current Reagan term.

The administration estimates that the 1981 tax cuts (current law) will bring in $92 billion less than old law in 1983 and $177 billion less by 1985. So last year's tax cuts also cut in half the growth in federal revenue. The president has called for minor tax increases which will bring the four-year revenue increase to $197 billion.

The budget seeks defense increases over 1981's allocation of $61 billion by next year (out of a total revenue increase of $67 billion) and $132 billion in 1985. To cover expected increases in Social Security, Medicare, retirement payments for federal employees, veterans programs, and interest on the national debt, the president plans to cut all other programs by $38 billion in 1983 and $52 billion by the end of his term.

By 1985, defense, interest, veterans programs and the retirement programs will account for $731 billion out of a total budget of $869 billion, or 84 percent. The other 16 percent includes foreign aid, justice, transportation, farm price supports, natural resources, energy, urban development and the general operation of government, as well as such social programs as AFDC and food stamps.

The president responds to critics of these domestic spending cuts by claiming that he hasn't actually cut government spending, but has only reduced the increase. It just isn't so, and he ought to be honest with the American people about what he proposes to do.

Welfare, education, job training and other social programs make up less than half this other spending. How small these programs are! Cure the deficit by attacking welfare cheats? The whole AFDC program cost just $9 billion in 1981, eliminating it altogether wouldn't make much of a dent in a deficit likely to end up at $120 billion to $150 billion.

Total Reagan spending on income support for the poor, next year — is just equal to the *increase* in defense from 1981 to 1983. By 1985, the revenue loss from the president's tax cuts combined with the increase in defense spending will total $290 billion a year — four times total spending on social programs.

If allowance is made for the impact of inflation, the president's $13 billion cut in these programs amounts to a program reduction of just over one-third. Of course, there are some badly conceived programs, and there are some people receiving aid who don't need it. But these abuses hardly justify the meat axe the president has taken to these programs. Ironically, he proposes to cut welfare benefits and food stamps to the working poor, thus eroding work incentives. He proposes to cut federal grants to elementary education — grants targeted to low income children. He proposes sharp cutbacks in college aid programs — programs which offer educational opportunity to the children of working parents.

What strikes me is how mean-spirited his administration really is. With $150 billion in tax reductions and $132 billion in defense increases, was it really necessary to cut $13 billion from social programs? President Reagan will impose a lot of pain on millions of our most helpless citizens, for savings which seem small in relation to the deficit, the tax cuts and the defense buildup.

REAGAN BUDGET

	FISCAL '81	INCREASE '81-'85
RECEIPTS		
OLD LAW	599	356
CURRENT LAW	599	179
REAGAN BUDGET	599	197
OUTLAYS		
DEFENSE	160	132
SOC. SECURITY	145	59
FED RETIREMENT	18	7
MEDICARE	39	24
VETERANS	23	4
INTEREST	63	37
AFDC	19	-2
SSI	7	1
FOOD & NUT.	16	-2
PRIMARY ED.	7	-3
HIGHER ED.	7	-3
JOB TRAINING	9	-6
SOCIAL SERVICES	7	-2
MEDICAID	17	-4
OTHER	112	-30
TOTAL OUTLAYS	657	211

Edward Moscovitch is vice president for regional economics at Data Resources, Inc. His column appears every Monday.

Civil Rights Organ

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It's Tough To Be A Woman

Women in this country are getting the short end of the salary stick. Although Congress passed the Equal Pay Act in 1963 ("equal pay for equal work"), women still are paid far less than their male counterparts.

According to the latest Labor Department statistics, women working full-time were paid an average of $224 a week in 1981, compared to $347 a week for men, a difference of 35.3%. For every $100 a man earned, a woman earned just $64.70.

Some economists have long held that women earn less because they are relatively inexperienced and do not hold down the highest-paid positions. The 1981 Labor Department study shows, however, that women were paid considerably less than men in the same occupations.

For example, men averaged $366 a week in sales work, women only $190—a difference of 48%. Where male salaried lawyers averaged $574 a week, females averaged $407. Men cooks averaged $202 a week, women cooks $148. Men service workers (janitors, cleaners, etc.) were paid $238 a week, but women only $170 a week.

Worse yet, the poorest people in the U.S. are women. They have, in fact, become our "nouveau poor." According to a 1980 study, fully 90% of those receiving minimum Social Security benefits are women; 61% of all Medicare enrollees are women; 69% of food stamps are issued to households headed by women; and 80% of households receiving money from the Aid to Families with Dependent Children program are headed by women.

Three out of every four Americans living in poverty are women.

Chairman FORD. Thank you very much.
Ms. Helling.

STATEMENT OF SANDRA HELLING, PUBLIC WORK PROJECT OF THE WELFARE GRANT COALITION IN NEW YORK CITY, ON BEHALF OF THE NATIONAL WELFARE/EMPLOYMENT ALLIANCE

Ms. HELLING. Good afternoon, Mr. Chairman.

My name is Sandy Helling. I am the coordinator of the Welfare Grant Coalition in New York City, a membership organization that works for the income and employment needs of the more than 2 million poor people in our city, including about 860,000 people in receipt of public assistance. Over the past two years, our organization has been organizing more than 15,000 general assistance recipients who are now required to work off their welfare checks under workfare. Our organization is also a member of the National Welfare Employment Alliance, and I am here to testify on behalf of both organizations.

Our organizations have dealt on a daily basis with the hurt of people afflicted by the Federal project cuts in the various entitlement programs. Besides increased suffering, we have witnessed the hopes of numerous welfare recipients to get off public assistance shattered by the AFDC and CETA cuts that eliminated employment possibilities for the poor.

Chairman Ford, you have asked, "How have the AFDC cuts, particularly the disregards, affected the welfare working people?" From our experience in the last few weeks, many of these people, particularly because of the elimination of the 4-month disregard, are going to be less well-off than they would be on public assistance. Their wages, after deducting work expenses, are now less than the standard of need in New York City. We have also met with many welfare recipients who once held CETA public service jobs, and are now in the workfare program. They have gone from a paid employment situation to being dependent on the welfare system.

We believe that the implementation of the AFDC workfare option, the community work experience program, goes even beyond the purpose of cutting back on social welfare programs. Workfare, a program that institutionalizes the destiny of perpetual unemployment for the poor, threatens the well-being of all Americans. We see workfare as the beginning of a slave market, modern day slaves without rights, people who are working without the hope of fulfilling the American dream promised by the Declaration of Independence.

We decided to concentrate the remainder of our testimony on explaining what workfare is, using our first-hand knowledge of the public works program, the New York State workfare program. Our program has been around for 10 years and is presently the largest and oldest workfare program in the country.

We speak with the hope that Congress, with a new understanding of the real meaning of workfare, will reject the proposal to require or even permit States to establish these workfare programs.

Workfare does not provide a job with wages and benefits, a job with dignity. The public works program workers in New York State work for their welfare checks. They do not get wages and benefits for their labor. They work in more than 30 city and 20 State agencies, and more than 30-nonprofit organizations.

A PWP worker does not get vacation days. He must make up Christmas Day during his 2-week cycle. He doesn't receive sick leave, unemployment benefits, or access to grievance procedures as do the other workers.

I ask, how can a PWP worker feel any dignity when he or she continues to receive a welfare check of $260 a month, especially when he or she sees coworkers getting a paycheck at much higher wage levels?

How can a PWP worker feel dignity when he or she must dress shabbily because they are not paid a living wage? How a PWP worker have the appropriate clothes to appear for a job interview? How can a PWP worker feel dignity when he or she is treated like a second-class worker?

Workfare is not a job or training program that leads to unsubsidized employment. Unlike CETA, which had employment and training goals, PWP is a work-off program that keeps people on welfare. In New York, thousands of PWP workers are placed as clerical aids, and none of these clerical aids receive any help in receiving secretarial skills, or typing training, or anything that would enable them to go from a PWP assignment to a paid job in the job market.

Workfare threatens the jobs and wage levels of all workers. As long as there are welfare recipients that can be brought into jobs without wages, all workers are in jeopardy of losing their jobs to this slave labor system. PWP workers in New York do not do makeshift work. This is a myth. They do the same work as the regular employees.

Although workfare regulations clearly prohibit the workfare workers from replacing regular employees or doing work ordinarily performed by regular employees, PWP workers work under more than 15 regular civil service job descriptions. In the 10 years since the PWP program was initiated, the program has taken thousands of regular jobs out of the civil service labor system into the welfare system. I ask again, how can a PWP worker feel dignity when he or she is treated like a scab by the other workers who blame the PWP worker for stealing their jobs, instead of the welfare system which is the real culprit?

Workfare is punitive. As other speakers have pointed out, its real purpose is not to improve employment prospects, but to cut the rolls. The redtape and computer errors discourage needy people and make it harder to receive the assistance they need. In New York State, PWP workers are sanctioned 30, 60, or 90 days for so-called offenses, which many times are computer errors because of the extensiveness of the regulations. We have witnessed firsthand this cruel and unusual punishment that has forced PWP workers to join the more than 36,000 street people, homeless people on the streets of New York.

Workfare denies human rights. PWP workers have been denied the right to unionize, and the State has done that simply by calling

them participants instead of workers. They are not allowed the right to fight for better working conditions in a union.

The PWP welfare system in New York has bred discrimination. Racial and sexual discrimination is practiced openly, unlike the civil service job system. City agencies specify that they do not want women or Hispanics in certain job positions.

We have predicted that if workfare is allowed to spread, that one day an engineer could find himself unemployed and then go through the various unemployment systems, and finally end up on welfare and in a workfare position where he gets a welfare check for working in the sewers.

A couple of weeks ago, a chemical engineer did come to our office, who had been unemployed for a few years, and who was working in PWP. This person came to us in his one torn suit. He is now under the PWP system. How is the PWP system going to get him back into the job market and into productive work when he lacks the means to go to interviews dressed appropriately?

It all comes down to this. If there are no jobs, then we should not mandate the States to punish people through workfare for the system's failure to produce job opportunities, and in the process reduce even further the number of available jobs.

People on welfare ask Congress to create real job programs for the unemployed, not workfare which means the building of a slave culture in America. We ask for fair work, and not workfare.

I would like to add that, because of short notice, I was unable to put my testimony in writing. I would like to submit my written testimony and certain documentation for the hearing record within the next few days.

Chairman FORD. We will leave the record open for a few days for you to submit your statement, and it will be made a part of the record in full.

[The prepared statement follows:]

STATEMENT OF SANDRA HELLING, COORDINATOR, PUBLIC WORK PROJECT WELFARE GRANT COALITION

My name is Sandy Helling. I am the coordinator of the Welfare Grant Coalition in New York, a membership organization that works for the income and employment needs of the more than 2 million poor people in New York City, including about 860,000 people in receipt of public assistance. Over the past two years, our organization has been organizing the more than 15,000 general assistance recipients who are required to work off their welfare checks under workfare. Our organization is also a member of the National Welfare Employment Alliance, and I am here to testify on behalf of both organizations.

Our organizations have dealt, on a daily basis, with the hurt of people inflicted by the Federal budget cuts in the various entitlement programs. Besides increased suffering, we have witnessed the hopes of numerous welfare recipients to get off public assistance shattered by the AFDC and CETA cuts that eliminate employment possibilities for the poor. Chairman Ford, you asked how the AFDC cuts in disregards and caps on work expenses have affected working recipients. I can tell you that already many recipients are coming to our office who have been cut off AFDC and are being forced to live on less than the standard of need—the welfare payment levels.

We believe that the implementation of the AFDC workfare option—Community Work Experience Program (CWEP) went even beyond the purpose of cutting back on social welfare programs.

Workfare, a program that institutionalizes the destiny of perpetual unemployment and welfare for the poor, threatens the well-being of all Americans. We see workfare as the beginning of a slave market—modern day slaves without rights—people who are working without the hope of the fulfillment of the American dream

as promised by the Declaration of Independence. We decided to concentrate the remainder of our testimony on explaining what workfare is, using our first-hand knowledge of the Public Works Program (PWP), New York State's workfare program for general assistance recipients. Established in 1971, it is the nation's largest and oldest operating program.

We speak with the hope that Congress, with a new understanding of the real meaning of workfare, will reject the proposal to require or permit states to establish work relief programs.

WORKFARE DOES NOT PROVIDE A JOB WITH WAGES AND BENEFITS—A JOB WITH DIGNITY

The Public Works Program (PWP) workers work off their welfare checks, without wages or benefits for their labor, in more than 30 city and 20 state agencies and more than 30 non-profit organizations. A PWP worker gets no vacation days, sick leave, unemployment benefits, or access to grievance procedures, as other workers. I ask, how can a PWP worker feel dignity when he or she continues to receive a welfare check of $260 per month—especially while co-workers get a paycheck at much higher wage levels? How can a PWP worker feel dignity when he or she must dress shabbily? How can a PWP worker have appropriate clothes to appear for job interview? How can a PWP worker feel dignity when he or she is treated like a second-class worker?

WORKFARE IS NOT A JOB OR TRAINING PROGRAM THAT LEADS TO UNSUBSIDIZED EMPLOYMENT

Unlike CETA which had employment and training goals. PWP is only a "work-off" program that sustains people on welfare. PWP workers do not receive training that will enable them to move to paid employment. For example, thousands of PWP workers in positions of clerical aides do not receive training in typing or other secretarial skills to prepare them for the job market. Many PWP workers have worked in these "unpaid" positions for more than three years.

WORKFARE THREATENS THE JOBS AND WAGE LEVELS OF ALL WORKERS

As long as welfare receipients can be brought in to perform jobs without wages, all workers are in jeopardy of losing their jobs to this slave labor system. PWP workers do not do "make-shift" work in New York. They do the same work as regular employees even though workfare regulations clearly prohibit PWP workers from replacing regular employees or doing the work ordinarily performed by regular employees. PWP workers work under more than fifteen civil service job descriptions. In the ten years since the PWP program was initiated, the program has taken thousands of regular jobs out of the civil service labor system and into the welfare system. I ask again. How can PWP worker feel dignity when he or she is treated like a scab by other workers who blame the PWP worker instead of the workfare system for displacing a union worker?

WORKFARE IS PUNITIVE

The intent of PWP as well as other workfare schemes has been to cut people off public assistance through another bureaucracy of red tape and computer errors. However, workfare has not been cost-effective in New York State—the program had a net cost of $200,000 in 1981. Sanctions that cut people off welfare for 30, 60, and 90 days have inflicted cruel and unusual punishment on PWP workers, forcing many to join the more than 36,000 homeless, walking people on the streets of New York.

WORKFARE DENIES HUMAN RIGHTS

PWP workers have been denied the right to unionize. Simply by calling PWP workers "participants," New York State has been allowed to deny workers their right to fight for better working conditions.

The PWP workfare system breeds discrimination; racial and sexual discrimination is practiced openly, unlike under the civil service job system. Agencies specify that they do not want women or hispanics in particular jobs.

* * * * * * *

We have predicted that if the workfare system is allowed to spread, that one day an engineer could become unemployed, go through unemployment and the various other systems, and find him or herself placed in workfare assignment in the sewers. To our surprise, two weeks ago a PWP worker came to our office who had been a

chemical engineer. He had lost his job a few years ago, and was now a PWP worker. Dressed in a tattered suit, he had become a prisoner of the welfare/workfare system. I ask, will this chemical engineer ever go back to his field through a work-off system?

It all comes down to this: If there are no jobs then we cannot mandate the states to punish people for the system's failure, and in the process, reduce even further the number of available jobs.

People on welfare ask Congress to create real job programs for the unemployed and not workfare, which means the building of a slave culture in America. Support Fair Work, not Workfare!

Chairman FORD. The workfare program that you are talking about in New York, is it tied into any job training program in the city at all?

Ms. HELLING. Mr. Ford, a couple of years ago, some of the PWP workers were able to go from PWP into the CETA public service employment program. Now, there is no program because of the budget cuts.

As people from other states have mentioned, and it is certainly true in New York State, there isn't the administrative money to run this kind of program, and there is no money in the workfare budget to provide training or even proper supervision for PWP participants.

Chairman FORD. You say that the Health and Human Services Office is monitoring the workfare in New York?

Ms. HELLING. It is run by the Human Resources Administration in New York City, and the State Department of Social Services. It is a statewide program.

Chairman FORD. How do they monitor the workfare program and the placement activities in the city?

Ms. HELLING. Last year, there may have been a couple of hundred people that were able to move into unsubsidized employment. I would say that those people who were able to go from workfare to unsubsidized employment were people who probably would have been able to do this without the PWP system. They had a number of years of college, or past work experience. Only a small number of people have found jobs.

Chairman FORD. How do they determine the person's ability to maintain or handle one of those workfare jobs?

You seem to have been directly or indirectly involved with the program in New York, how do they monitor that part of it?

Ms. HELLING. Excuse me, I did not understand the question.

Chairman FORD. How do they determine a persons ability to hold a workfare job.

Ms. HELLING. In New York City, we have about 100,000 people in the general assistance program, which is called home relief in our State. Of these, 30,000 people are considered employable and 70,000 are not considered able to work. Of the 30,000 employables, about half are in the workfare system.

Chairman FORD. Where are the other half?

Ms. HELLING. The other half have not been given assignments, partly because there is a rapid turnover of people on the rolls, and partly because of the lack of administrative money to handle placements for everyone.

Since we don't feel the system helps the people—and it is certainly hurting the labor situation—we hope the number of work assignments does not increase.

Chairman FORD. Does the system provide for transportation?

Ms. HELLING. Yes, there is a stipend provided for lunch and for transportation on the days that the participants work.

Chairman FORD. No compensation, other than the stipend, to take care of those expenses that are incurred; is that correct?

Ms. HELLING. That is correct. Certainly, many of the PWP workers feel they do not have the money for clothing to go to work. Certainly, on a welfare budget, there is not a clothing requirement specified for assignees to work projects.

Chairman FORD. What happens in a case like that, with the welfare recipient who is not financially capable of buying whatever suitable dress that would be needed to go on a job? What happens in a case like that?

Ms. HELLING. They go on the job anyway.

Chairman FORD. I know some people right in my home district that live in poverty without sufficient clothes to go to any job. What happens in a case like that?

Ms. HELLING. People go to their jobs without coats. They have holes in their shoes.

It is hard to explain. You can walk into a city agency today, and determine who is on the public work program because of their appearance, since they don't have adequate money for clothing.

I think even worse are the cutoffs in the program. There are so many computer errors. Someone will try to make up an absence for Christmas sometime in the 2-week period, and the computer will not register that, and that person is taken off public assistance for 2 months. What happens to these people?

I think that having people work without grievance procedures, relying on a backup welfare system that really doesn't have administrative costs to handle it, is an outrage. I cannot say it any stronger.

Chairman FORD. Thank you very much.

I would like to thank each member of the panel for coming and testifying before the committee today, all three of you.

Our next panel is the American Federation of State, County & Municipal Employees, Mr. Al Russo, coordinator of services programs, along with the National Association of Social Workers, Annette Maxey, executive director. I understand Ms. Maxey is not here.

Mr. Koziol and Mr. Cooper, would you come down and be part of this panel at this time. Mr. Koziol is with the Motorola Co., Inc., corporate director of administration, and he is accompanied by Mr. Lester L. Cooper, the assistant director of congressional relations.

If you don't mind coming to the witness table at this time, I would appreciate it.

Is Prof. Ruth G. Blumrosen from the Rutgers University Graduate School of Management here?

She is not here.

Mr. Russo, would you please begin.

STATEMENT OF AL RUSSO, COORDINATOR OF SOCIAL SERVICES PROGRAMS, AMERICAN FEDERATION OF STATE, COUNTY & MUNICIPAL EMPLOYEES

Mr. RUSSO. Thank you very much, Mr. Chairman.

Mr. Chairman, I am Al Russo, coordinator of social services programs for the American Federation of State, County & Municipale Employees. We have submitted a detailed statement, Mr. Chairman, which we request be made a part of the hearing record.

Chairman FORD. It will be made a part of the record.

Mr. RUSSO. Thank you, Mr. Chairman.

The American Federation of State, County & Municipal Employees appreciates the opportunity to testify on the administration's fiscal year 1983 funding recommendations on the vital human services programs which fall within the jurisdiction of your committee.

AFSCME is the largest public employee union in the Nation. We represent more than 1 million public employees at the State, county, and municipal level. Our members labor in virtually all of the program areas falling within your committee's area of responsibility. These members and employees provide the commitment and dedication to make all of these programs work at the State and local level.

This year, they, and the millions of Americans they serve, have been the victims of an incredible trauma. Many of them have been hurt, and hurt deeply, as a result of the intemperate and oftentimes irrational budget reductions enacted this year.

Two hundred and fifty thousand public sector jobs have disappeared since last year. Millions of Americans have lost their jobs and have had their survial benefits and services terminated or reduced. Mr. Chairman, we know that you and the members of this committee are well aware of the misery in human terms that has been caused by the heavy fist that was permitted to crash down upon these domestic programs.

Our plea is to urge that it be stopped. For the fact of the matter is that too many career public servants have lost their jobs and too many Americans have sustained misdirected blows as if they were the cause, rather than the victims, of the administration's disastrous economic policies.

The full statement that we have submitted for the hearing record sets forth AFSCME's position and recommendations in detail on title XX, AFDC, child welfare services, low-income home energy assistance, and unemployment insurance, as well as SSI.

The overriding fact we want to stress, Mr. Chairman, is this: the illogical cuts to these programs this year are increasingly being found to be counterproductive and self-defeating.

At a time of deep recession, high employment, and a stagnating economy, it makes little sense to elevate an already high human misery index by continuing to assault upon these programs. As the economy sinks, that is the time to strengthen and expand, not to mangle, social welfare programs.

For the sake of brevity, we would in short order address several of the major programs, while referring the committee's attention to our detailed statement.

Under AFDC, as has already been noted, Mr. Chairman, as a result of this year's cuts, more than 700,000 AFDC families, 60,000 more than estimated by the administration, have lost their benefits, including medicaid in many cases, or have had them reduced. The majority of these working poor families are female head of households, with about 1.5 million vulnerable children.

Reputable studies have shown that the fiscal year 1982 AFDC changes, which deliberately reproduced these cutoffs and reductions, are a serious disincentive to continuing employment. Many of these mothers and their children would be far better off if they stopped working and relied totally on AFDC.

The President is proposing further revisions to the AFDC program for fiscal year 1983. They are intended to slash an additional $1.2 billion in Federal funds by further abolishing or reducing benefits for thousands of additional families.

For reasons indicated in our detailed testimony, Mr. Chairman, we urge the committee to reject these punitive changes. We will cite just two examples of these proposed revisions.

Requiring States to count energy assistance payments as income would sharply reduce the disposable income of AFDC recipients or result in the denial of continuing assistance.

The AFDC proposal submitted by the administration to make workfare mandatory for employable AFDC recipients as a substitute for the WIN program, which would be abolished, is just plain irrational.

We can see no logic, Mr. Chairman, in replacing a program such as the WIN program that helps welfare recipients find private sector work and which provides child day care services to more than 100,000 children, with one which just makes recipients work off their benefits.

Under title XX, Mr. Chairman, funding for a wide range of essential social services, including child day care, was reduced sharply this year, from $2.9 billion down to $2.4 billion. Now the administration, in fiscal year 1983, wants to cut title XX further, down to $1.9 billion.

An estimated 7.7 million persons, Mr. Chairman, received title XX funded services in fiscal year 1981. It is expected that this number will drop to about 5.7 million this year as a result of this year's cuts. The second severe proposed reduction for fiscal year 1983 would further lower it to about 4.4 million.

What we are facing here, Mr. Chairman, is the termination of such services as protective services to children and adults, services to children in foster care, services to enable handicapped persons to remain in their own home, day care services to children so that their parents can work and remain independent, services to support functioning of families and persons receiving AFDC and SSI.

AFSCME submits that the price that will have to be paid in time for abandoning the crucial social services needs of more than 3 million Americans will far exceed the nearly $1 billion the administration would chop off of title XX during its first 2 years in office.

Under unemployment compensation, Mr. Chairman, the administration has proposed no additional cuts in unemployment insurance this year. However, several of the State trigger provisions, which make it more difficult to qualify for the extended benefits

program, are due to go into effect this fall, and the national trigger already has been repealed.

In addition, the unemployed currently are entitled to only 39 weeks of benefits. With the recession deepening and lengthening, it is unconscionable to deny the growing number of long-term unemployed adequate unemployment benefits. The only result of efforts to cut benefits can be additional pressure on the welfare population, a serious deterioration in the skills of workers, and destructive dislocations in their lives.

Mr. Chairman, several important bills have been introduced within recent weeks that would reverse some of the worst of last year's provisions. They seek to undo some of the serious injustice caused by the intemperate reductions in major human services programs.

H.R. 5791, which you have introduced, would authorize a more realistic level of funding during the current and future budget years for title XX and for low income home energy assistance. In addition, it would provide a more equitable treatment of the income of members of AFDC families which in AFSCME's views would restore the incentive to work for the working poor.

H.R. 5284, H.R. 5251 and H.R. 5454 are directed at repealing changes made this year in the trigger provisions in the extended unemployment insurance program. These provisions have denied benefits to thousands of the more than 10 million unemployed Americans, and have driven them to despair and destitution.

H.R. 6085 would establish an additional 13 weeks of Federal supplemental benefits so desperately needed by the growing number of long-term unemployed.

AFSCME urges your committee and the Congress to approve each of these vital bills.

Mr. Chairman, we appreciate the opportunity to testify before the committee, and we should be more than happy to try to respond to any questions.

Thank you.

[The prepared statement follows:]

STATEMENT OF THE AMERICAN FEDERATION OF STATE, COUNTY & MUNICIPAL EMPLOYEES, AFL-CIO

INTRODUCTION

As the largest public employees union in the Nation, AFSCME is deeply concerned about the deterioration in the delivery of public services that has resulted from the severe Federal funding reductions in domestic programs this year. Millions of Americans, who can least afford to be hurt, have experienced, and are at this hour experiencing, the trauma of being told that their Title XX, AFDC, Child Welfare, Low Income Home Energy Assistance, Unemployment Insurance and Supplemental Security Income benefits have been terminated or reduced. All of this is occurring at a time of deep recession, soaring unemployment rates, and high inflation—a time when those who are barely able to cope and manage should be helped rather than neglected. The double-edged sword that has been leveled upon the states, counties, and local jurisdictions has stricken both the providers and the consumers of these vital human services. Thousands of jobs in the public sector have vanished. The vacuum left in their wake has been filled with the human misery of those who are no longer being served and by thousands of jobless public employees.

In fiscal year 1983, the Reagan Administration proposes to continue this assault upon the states and local jurisdictions and upon the needy children, the unemployed, the elderly and the disabled who reside within their borders. Further Feder-

al reductions on the order of more than $5 billion have been recommended to the Congress for these crucial programs in a senseless obsession to cut and destroy.

The American Federation of State, County and Municipal Employees—representing more than one million employees in the public and nonprofit sector across the country—is disturbed by the actions of this Administration. We submit that these actions show a callous disregard for the poor and the powerless among us. We look to the members of this Committee and to the Congress to restore reason and compassion to our human services programs.

May we address these major programs which fall within the Committee's purview and also recently introduced legislation impacting deeply upon most of them.

TITLE XX

In 1972, the Congress terminated open-ended funding under Title IV-A for social services by establishing Title XX. Federal funding was capped and states were required to provide a 25 percent match on the costs of basic social services. Title XX allocations to states were based on population. Later, special allocations for child day care services were provided at 100 percent federal funding. As a requirement for the receipt of federal funds, states were obliged to develop annual social services plans, subject to citizen participation and federal approval. States were held accountable through federal monitoring and oversight for the delivery of statutory, mandatory services and elected optional services to targeted low-income persons and families and to others on the basis of need and income.

During the Reagan Administration's first year (fiscal year 1981-82), the Congress accepted the President's sweeping changes in Title XX. Federal funding was reduced sharply—by $500 million, from $2.9 billion to $2.4 billion. States are now no longer required to match their federal allocations. The federal monitoring and oversight role has been radically reduced, leaving states with almost total latitute in deciding which social services are to be provided and to whom.

Title XX funds a wide array of vital social services programs.

For each quarter in fiscal year 1981 (under the $2.9 billion cap), and average of:

More than 500,000 children received day care services. This service enabled most of their working mothers who were heads of households to remain on their jobs.

Over 400,000 children received protective services because they were in danger of being neglected or abused. As a result of this service, the vast majority were able to remain in their own homes rather than being separated from their families and placed in costly foster care.

About 500,000 adults received homemaker and chore services which enabled them to avoid institutionalization and its high costs.

Nearly 600,000 persons—mainly recipients of AFDC, SSI and Medicaid—received counselling services which responded to crises threatening their ability to function cope and manage.

More than 400,000 adults and children received health-related services.

About 200,000 adults received protective services that ameliorated or eliminated conditions of neglect, exploitation and abuse to which they were being subjected.

Nearly 200,000 children received foster care services aimed at protecting their health and well-being while they were being cared for away from their homes.

About 200,000 adults, primarily AFDC recipients, received education and training services.

More than 500,000 women received family planning services.

The Administration has postulated that states can compensate for the sharp decrease in Title XX funds this year by maximizing the greater flexibility they now have in managing these services.

This is simply not true. What the federal funding reduction is, in fact, producing is a dramatic rise in human misery for those recipients who are being denied these critical services and for the social services employees whose jobs are, or will be, gone.

For fiscal year 1983, the Administration is asking the Congress and this Committee to cut Title XX again—by nearly an additional $500 million—from $2.4 billion down to $1.9 billion. AFSCME believes that the approval of this reduction will devastate the services provided by this program.

All states will suffer if this radical reduction is enacted. The economically depressed state of Michigan, for example, has already lost $25 million as a result of this year's Title XX cuts. It stands to lose an additional $18 million in fiscal year 1983 if the President's proposal is approved.

California lost $47 million this year and would be cut an additional $44 million in fiscal year 1983.

Millions of Americans will suffer. A recent study by the National Association of Social Workers points out that two million Americans will lost Title XX services this year, an additional 1.3 million will lose them in fiscal year 1983, if the Congress approves the Administration's recommendation.

And the cities will suffer. This year's reduction in Title XX federal funding has forced virtually all of them to reduce services because neither they nor their states have had the resources to replace lost federal dollars.

The consequences of these cuts are clear. They will encourage and provoke:

The removal of neglected and abused children from their homes; joblessness among working female heads of households who will be encouraged to leave their jobs and turn, or return, to AFDC; the institutionalization of disabled persons; the neglect, abuse and exploitation of the elderly; and the disintegration of vulnerable families.

AFDC

Since its establishment in 1935, the state or county-administered and federally supported AFDC program has been of major interest and concern to AFSCME.

There are two reasons for this.

AFSCME regards this program as a vital deterrent to the dissolution of families in which there are needy children who have been deprived of parental support because of the death, absence, incapacitation, or unemployment of a parent. Throughout its long and controversial history, and despite its disparities and shortcomings, AFDC has without question enabled millions of dependent children to remain in their own homes. However minimally, it has assured their survival into adulthood. There are hundreds of thousands of Americans who at some period during their early lives were recipients of AFDC. Today, many are contributing members in virtually every aspect of our society.

As a major labor organization, AFSCME knows AFDC and knows it well. More than 40,000 of our members labor in its trenches at the state and local level. They are the public servants who are on the line at intake and who, with dignity and compassion, take the application and make it possible for the bureaucratic system to respond to critical human needs.

Pervasive myths for all too long clouded this program. It is essential that they be tested against these facts:

AFDC is a program for needy and dependent children who have no control whatever over whether or not one of their parents is dead, absent, incapacitated or unemployed.

7.5 million children in 3.5 million families in every state are receiving AFDC today.

37 percent are under age 6; 50 percent are between the ages of 6 and 14.

Over one-third of all AFDC families include at least one child under the age of 3; 56 percent of the families have at least one child under the age of 6.

Approximately 80 percent of AFDC families live in households headed by women. 73 percent consist of children living with their mother or stepmother; about 7 percent in households headed by the children's grandmother.

Of the approximate 20 percent of AFDC families living in households headed by a male, in 9 percent of these cases the male is the father; in about 6 percent he is the stepfather; and in 5 percent he is the grandfather.

Only 7 percent of all AFDC families include two adults in the assistance unit.

More than 55 percent of all AFDC families have been continuously on the rolls for 3 years or less; 27 percent have been receiving assistance for one year or less; and almost three-fourths of the families have been receiving assistance for 5 years or less.

About 14 percent of all AFDC families have earned income in any given month.

For a family of four with no other income, AFDC monthly payments range from $120 in Mississippi to $524 in California.

AFDC was brutalized this year. Through a series of changes recommended by the Administration and approved under the Omnibus Budget Reconciliation Act of 1981, federal funding was reduced by $1 billion. The major target of these revisions are the working poor (female heads of households who work full-time and who receive a reduced, supplemental AFDC payment).

So far this year, according to a state-by-state survey conducted by the American Public Welfare Association, 725,000 AFDC families—66,000 more than estimated by the Administration—have lost their benefits (including Medicaid coverage in many cases), or have had them reduced because of the federally-imposed new changes in

eligibility requirements. It is, AFSCME believes, a simple matter of time before these revisions are proven to be counterproductive and self-defeating.

The President is proposing further revisions to the AFDC program for fiscal year 1983. They are intended to slash an additional $1.2 billion in federal funds by abolishing or further reducing benefits. Virtually all AFDC families will be adversely affected if this second round of the Administration's patent efforts to emasculate the program are successful.

We would list these major revisions and state AFSCME's position on each:

States would be required to count energy assistance received by AFDC recipients.

In effect, this change would reduce the AFDC payment by each dollar the family receives for energy assistance. It would amount to the total elimination of Low Income Home Energy Assistance payment for all AFDC families. With the vast majority of AFDC families now living considerably below the proverty level, it would further reduce their disposable income and grossly impair their ability to manage.

States would be required to count the income of all adults living in the household who are not related to the AFDC children as income to the children.

This change would, in effect, reestablish the discredited "man in the house rule" as national policy. Were this to occur, this practice would again raise serious Constitutional issues. Its enforcement would present a colossal administrative nightmare.

States would be required to pay less that full benefits whenever an AFDC recipient lived in a household with others.

The clear purpose of this change is to force the reduction of assistance payments for those AFDC families living with other households, usually relatives. It totally ignores the fact that these other households either have no income or, because of their low incomes, are themselves living in poverty.

Require states to establish workfare programs for employable AFDC recipients.

Require unemployed parents in the AFDC-U program to participate in workfare programs.

Terminate federal funding for the Work Incentive Program.

AFSCME deplores the Administration's persistent efforts to impose workfare programs upon the states. Not more than a handful of states have exercised the option granted to them under last year's Budget Reconciliation Act to establish such programs.

The reasons for this are obvious: Workfare programs are not cost effective.

They do not provide meaningful training nor placement in unsubsidized jobs.

They do no discourage needy families from applying for assistance, nor do they force recipients off the rolls.

What workfare does do is destroy the dignity of work for its participants in public workplaces by denying them status as employees, by creating hostility between them and regular employees, and by demeaning their dignity and self-worth.

An Administration which would at one and the same time propose the abolition of federal support for the WIN program and the mandatory establishment of workfare programs for AFDC recipients is acting irresponsibly and illogically.

Attached to this statement is an AFSCME study which objectively compares WIN and workfare. We would urge a careful review of this document by the Committee. It raises this perplexing question:

What sense does it make to wipe out the WIN program which, since 1968, has been exclusively serving employable AFDC recipients by providing them comprehensive services leading to jobs in the private sector in favor of workfare programs, which have been monumental failures in most of the places where they have been established?

Consolidating federal matching funds for administrative costs in the AFDC, Medicaid, and Food Stamp programs; and capping such funds 5 percent below this year's costs.

This proposal is a blatant attempt by the Administration to shift a greater fiscal burden to the states at at time when the revisions it successfully had enacted to these programs, and the additional fiscal year 1983 changes it is recommending, would substantially increase such costs.

AFSCME's assessment of these proposed AFDC revisions leads to this inescapable conclusion:

If they are adopted in part or in whole, they would add incalculably to the serious damage that has already been perpetrated on the needy children this program was established to serve and protect. Our national conscience should demand that this not happen.

The approval by the Committee and the Congress of H.R. 5791 would repair some of the damage done to AFDC and other programs. This legislation would establish a more rational manner in treating the earned income of members of AFDC families.

Its provisions would strengthen work incentives and would be more responsive to the needs of impoverished families. Further, they would also authorize a more realistic level of funding for Title XX and Low-Income Home Energy Assistance.

AFSCME strongly endorses the enactment of H.R. 5791.

CHILD WELFARE SERVICES

Prior to the enactment of P.L. 96-272, the Adoption Assistance and Child Welfare Act of 1980, the Congress deliberated exhaustively over the plight of the nation's neglected and abused children and of the 500,000 of them who have been removed from their homes and are consigned to, and are lingering in, foster care. After nearly four years of intensive study, this law became a reality. It provided for the implementation of the major findings produced by this effort:

That there must be a greater federal presence and financial involvement if the states can be expected to protect and safeguard the interests of these children. Many of them were found unable to do so.

That federal direction and financial support would be made available to states to assure that effective protective services would be provided to all children in danger of neglect or abuse aimed at the goal of enabling them to remain in their own homes.

That children whose removal was unavoidable would not be permitted to become lost in foster care. Rather, intensive efforts would be directed at returning them as quickly as possible to their own families and, when this could not be done, to place them permanently with adoptive families.

The Administration's fiscal year 1983 Child Welfare Services Block Grant proposal would vitiate most of what Public Law. 96-272 was intended to accomplish. It would reduce federal funding for child welfare services, foster care, and adoption services by 18 percent; repeal Title IV-B (child welfare services) and foster care as entitlement programs. Contrary to historical fact, it would tell the states that these children are their responsibility; that they can best provide for their needs with only minimal involvement of the Federal Government. In short, it would have the nation turn its back on these children.

AFSCME categorically rejects these convoluted premises which fly in the face of all that we must do to bind us closer together as a nation.

LOW INCOME HOME ENERGY ASSISTANCE (LIHEA)

Approximately 13 million low-income families and persons are assisted by the state-administered and federally-funded LIHEA program in meeting the high cost of fuel and other types of energy. All 59 states and the District of Columbia receive LIHEA money based on the number of estimated eligible persons, the relative coldness of their winter weather and the general price of fuel used. Eligibility requirements and maximum amounts that persons and families can receive any determined by the individual states within the parameters of federal statutory limitations. During the three years of its existence, LIHEA has proven to be crucial to the health and well-being of its program participants.

For Fiscal Year 1982, the Congress appropriated $1.752 billion for LIHEA. Although this was $300 million more than the Administration had recommended, it still fell $100 million below the Fiscal Year 1981 appropriation. In February 1982, however, a supplemental appropriation was approved by the Congress, thus bringing this year's funding to approximately the same level in Fiscal Year 1981.

Now the Regan Administration is again recommending deep cuts to this program. It proposes to consolidate Emergency Assistance under Title IV-A (currently funded at $50 million) with LIHEA. Moreover, it is recommending a combined funding level at $1.4 billion, or a reduction of 28 percent for energy assistance.

It is estimated that more than 25 percent of the persons who are eligible for LIHEA are not receiving any benefits. Should the Administration's fiscal year 1983 proposal be approved, not only would any hope for program participation be foreclosed for them but, worse still, more than one-fourth of the current participants would be denied this essential assistance, or all current recipients would have their benefits severely reduced.

In view of the continuing excessive costs for energy and the undeniable inability of Americans living in, or near, poverty to meet such costs without LIHEA, AFSCME urges the Congress to disapprove the Administration's proposal. AFSCME recommends that not less than $1.8 billion—or approximately the same as this year's level—be appropriated for LIHEA in fiscal year 1983.

UNEMPLOYMENT INSURANCE

As part of the Omnibus Budget Reconciliation Act of 1981, several sweeping cutbacks were enacted in the federal-state unemployment insurance (UI) program placing major new hardships on unemployed workers at a time when the Administration's economic policies threaten to bring the nation to an economic precipice. Treasury Secretary Donald Regan acknowledged last week that unemployment, already at a post-Depression high, will go even higher. Major sections of the nation are already experiencing Depression-levels of unemployment. An estimated ten million American workers are out of work, and countless others are "permanently discouraged" from looking for work.

The "national trigger" was eliminated under which up to 13 additional weeks of UI benefits were paid to long-term jobless workers who exhausted their regular benefits when insured unemployment reaches 4.5 percent. This action poses a major new threat to the economic security of long-term jobless workers and their families who will be denied benefits unless their state is suffering from a near-Depression level of unemployment. As found by the National Commission on Unemployment Compensation, the national trigger in the extended Benefit program has a favorable national macroeconomic effect in restricting the impact of a worsening recession and plays a vital role in protecting the economic security of long-term jobless workers. Accordingly we strongly support repeal of the provision enacted in the Omnibus Budget Reconciliation Act that eliminated the national trigger in the Extended Benefit (EB) program, as proposed in H.R. 5251, H.R. 5284 and H.R. 5452.

Also as part of the Omnibus Budget Reconciliation Act, a provision was adopted excluding from the insured unemployment rate (IUR) calculation of all EB claimants. Numerous economies have pointed out that the IUR already significantly underestimates the actual unemployment rate, and elimination of the long-term unemployed from the IUR has made the EB program even less sensitive to deteriorating economic conditions. AFSCME, therefore, strongly supports H.R. 5284 and H.R. 5452 which, inter alia, would repeal this ill-conceived provision of the 1981 Budget Act.

Finally, a provision was enacted raising the state IUR rate for purposes of triggering on extended benefits which will be effective September 25, 1982. This provision, according to the Administration's own projections, will mean that approximately one-half million long-term jobless workers will lose their EB benefits, forcing hundreds of thousands of workers into welfare and other means-tested programs. We, therefore, support H.R. 5284 and H.R. 5482 which will rescind this unwarranted action.

AFSCME also supports two other bills which currently are being considered by the Subcommittee because we believe they will serve to strengthen the UI program. First, we strongly support H.R. 6085 which would provide up to a maximum of 13 additional weeks of unemployment compensation to workers who exhaust their regular and EB benefits. In our view, there is little prospect that the current staggering levels of unemployment will fall anytime soon, and we believe an additional period of UI benefits is essential to cushion long-term jobless workers and their families already suffering severe reduction in living standards.

Finally, with certain proposed modifications, we support H.R. 5904 which encourages states to modify their UI programs to allow the payment of partial unemployment benefits to workers who work-week is reduced pursuant to an employer plan under which such reductions are made in lieu of temporary layoffs. We suggest that the bill should require certain safeguards in all states which incorporate short-time compensation in their UI programs:

(a) Adequate funding for the unemployment insurance trust fund to protect the rights of all who are unemployed; (b) where workers are represented by a union, agreement with the union on short-time compensation; (c) wage replacement level of at least two-thirds of each worker's lost pay for up to 40 percent of the workweek; (d) full retention of pension, insurance or other fringe benefits; and (e) protection against manipulation of short-time compensation that would discriminate against recently hired workers, especially minorities and women.

If these safeguards are adopted, we believe short-time compensation can play an important role in cushioning the impact of unemployment.

SUPPLEMENTARY SECURITY INCOME (SSI)

More than four million aged, disabled and blind Americans rely totally on SSI benefits for their survival.

AFSCME urges the Committee to reject proposals by the Administration that are intended to reduce or eliminate benefits under this program.

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Further, we call upon the Congress to approve the enactment of H.R. 5509 and H.R. 5911. These bills serve the purpose of treating these vulnerable beneficiaries more justly by limiting the rate of recovery of overpayments beyond their control, and by excluding the values of burial plots and burial insurance policies as resources in determining an SSI applicant's eligibility.

A Critique of the Administration's Work Incentive and Workfare Proposals

The Administration has proposed abolishing the Work Incentive Program (WIN) in fiscal year 1983. Presently, WIN is funded at $256 million, down $109 million from the fiscal year 1981 level of $365 million. In its budget narrative, the Administration claims that other programs, such as their proposed mandatory workfare program, will make WIN unnecessary.

Abolishing WIN and instituting mandatory workfare is, according to internal DOL papers obtained by AFSCME, contrary to the Administration's own objectives of reducing federal welfare expenditures by moving recipients off welfare and into jobs and of giving the states greater program flexibility.

WIN has a strong work requirement. Its primary goal is to move welfare recipients off welfare and into productive private sector employment, to make them taxpayers rather than tax consumers. It is a state run program of social services and job finding services, with considerable state autonomy and program flexibility. According to Labor Department figures, it shows program benefits well in excess of program costs.

Workfare, in contrast, does nothing to make recipients self-supporting since they simply are required to work off their welfare grant. Mandatory workfare violates the principle of program flexibility and decentralization.

BACKGROUND

Congress established WIN in 1968 in response to a pervasive demand that welfare (AFDC) costs be reduced by moving recipients into training and unsubsidized jobs. The program is restricted to employable AFDC youth and adults, including unemployed parents. At the Federal level, administrative program responsibility is placed in the Department of Labor. The then Department of Health, Education, and Welfare (now the Department of Human Services) is assigned responsibility for assuring that services required by AFDC recipients, particularly female heads of households, are provided in order to enable them to participate.

At the State level, the WIN program is administered by the State Employment Service offices. State Welfare Departments bear responsibility-through separate single Administrative Units (SAU) and Income Maintenance Units (IMU)-for providing the essential services that are needed by the AFDC recipients (for example, child day care), and to make prompt and proper AFDC payment adjustments as they are placed in jobs.

In 1972, the Congress enacted major WIN revisions. In addition to imposing mandatory registration and participation requirements as a condition of AFDC eligibility for all non-exempt recipients, strong program emphasis was placed on the job readiness and job placement components. The rational for these changes was twofold: to require WIN involvement as a prerequisite to receiving assistance, and to significantly increase the number of job placements while reducing the time span before such placements occurred.

In 1980, WIN was amended again to strengthen sanctions for refusal to work and to authorize services for AFDC applicants so that they could be placed in jobs before they became AFDC recipients.

Most recently, the Omnibus Budget Reconciliation Act of 1980 authorized the states to set up WIN demonstration programs primarily intended to give states more administrative flexibility. In particular, the amendments permit the states to give state welfare departments primary responsibility for the entire program. Some 24 states have shown enough interest to submit applications.

Historically, adequate levels of WIN federal funding have not been provided by the Congress to assure the active involvement in the programs of many of the non-exempt AFDC recipients who are registered but are awaiting assignment leading to actual participation. This lack of funding, a major criticism of the program in the past, accounts for the high number of unassigned recipients (826,339 in fiscal year 1981).

FISCAL YEAR 1981 WIN ACCOMPLISHMENTS

Recently compiled Labor Department data, obtained by AFSCME, show WIN to be a cost effective program. According to DOL, in fiscal year 1981 WIN spent $389.5 million to register 1.9 million persons, provide supportive services and training to over 200,000 registrants, place 310,303 in unsubsidized jobs, and sanction 20,564 for non-compliance with the work requirement.

The 310,303 persons who found jobs generated total annualized wages of about $2.3 billion. The ratio of these annualized wages to WIN expenditures was 5.89. In other words, WIN registrants who found jobs earned $5.89 compared to each dollar spent by WIN.

According to DOL, WIN also produced annualized AFDC grant reductions of about $750 million. The Department estimates further savings of $450 milion in reduced Food Stamp and Medicaid benefits.

While actual savings probably are lower than these annualized figures, an independent study by Bradley Schiller at American University concluded in 1978 that WIN had been economically cost effective, speeded up the rate at which recipients find jobs, and was especially beneficial to registrants with the least skills and work experience.

DOL's analysis concludes that WIN's activities should be retained because they are cost effective and consistent with the Administration's policy objectives.

WORKFARE

Last year's Omnibus Budget Reconciliation Act, contained provisions to allow states to establish workfare programs under which AFDC recipients would be forced to work off their welfare grants at an hourly rate equal to the minimum wage. The program, called CWEP, has no equal pay or benefit requirements and only modest anti-substitution provisions to protect employed workers from being displaced by workfare participants.

The Administration's fiscal year 1983 budget contradicts the principles of local control and flexibility by proposing to make CWEP mandatory in every state. This is despite the fact that only five states to date are taking any action to set up a CWEP program.

The Administration's proposal therefore will mean mandated spending by the states for a program in which they have shown little interest. The budget contains no additional administrative funds for CWEP. Instead, it proposes consolidating Food Stamp, AFDC, and Medicaid administrative funds and cutting them by 5 percent. Experience with past workfare programs shows the need for substantial administrative costs.

The mandatory workfare proposal also contradicts the goal of making welfare recipients self-supporting through training and job referrals. Instead, recipients simply continue to receive their full welfare payment unless, of course, they drop out of the program altogether either because they reject forced labor leading down a dead-end street, or, more likely, because they cannot work without essential supportive services such as child care.

Finally, the mandatory workfare proposal means the strong possibility of equal pay disputes and the displacement of employed workers. At a time of high unemployment and deep budget cuts, it is inconsistent with the objective of reducing unemployment to require a program that could further reduce the number of available jobs.

CONCLUSION

Programs like WIN are more cost effective, more equitable and more consistent with the Administration's own stated objectives than programs like CWEP. WIN funding should be restored and protected. Mandatory workfare should be rejected.

Chairman FORD. Mr. Russo, let me thank you very much, as well as the AFSCME union, for appearing before the committee today to testify on such vital issues. I learned from the staff a minute ago that you are a former director of the welfare office here in the District of Columbia prior to going to the American Federation of State, County & Municipal Employees Union.

Mr. RUSSO. Yes, I did.

Chairman FORD. And we feel that you spoke with authority and we appreciate it very much. Thank you very much for coming.

Mr. RUSSO. Thank you, Mr. Chairman.

Chairman FORD. Thank you, sir. We will now hear from Mr. Koziol.

STATEMENT OF C. F. KOZIOL, CORPORATE DIRECTOR OF PERSONNEL ADMINISTRATION, MOTOROLA, INC., ACCOMPANIED BY LESTER L. COOPER, ASSISTANT DIRECTOR, CONGRESSIONAL RELATIONS

Mr. KOZIOL. Thank you, Mr. Chairman.

Chairman FORD. I would like to say before you start, Mr. Al Gonzalez is here from the National Association of Social Workers to substitute for Ms. Maxey who I called a minute ago. As soon as we finish with the witnesses here we will call upon him. Is that all right, sir?

All right, you may proceed.

Mr. KOZIOL. My name is C. F. Koziol and I am the corporate director of personnel administration for Motorola, Inc., which employs over 75,000 employees and is headquartered in Schaumburg, Ill. I appreciate your affording me the opportunity to testify in support of H.R. 5904, the Short-Time Compensation Act of 1982.

Appearing with me on my right is Mr. Lester Cooper, Motorola's assistant director of congressional relations. Mr. Cooper was an active participant in the negotiations surrounding the drafting of H.R. 5904 and can answer questions about what particular provisions of the bill were designed to accomplish.

We have submitted a comprehensive statement and I will keep my remarks very, very brief in support of that statement.

Chairman FORD. The comprehensive statement will be made a part of the record.

Mr. KOZIOL. It was my distinct pleasure to appear before this committee almost 2 years ago in support of Representative Schroeder's Short-Time Compensation Act of 1980.

Because other witnesses will testify to the significant benefits to employees, the community, and society, I will focus my brief remarks on the benefits to the employer. Motorola's support for H.R. 5904 and for State short-time compensation laws is based on the following convictions, convictions born of painful experiences with layoffs and recalls:

First, in these times of intense domestic and international competition, it is critically important that American firms such as Motorola develop and retain—and I emphasize "retain"—a highly trained, motivated and productive work force. It is critical to us.

Second, layoffs significantly set back the attainment of those vital objectives. Layoffs diminish employee skills that employers have invested so heavily to attract and to develop. Many laid off employees never return to their employer, hence the employer must spend considerable time and money recruiting, employing, and training replacements for them. And even for those who survive layoffs, the threat of further layoffs depresses morale and motivation.

Finally, while abbreviated work weeks and short-time compensation may be costlier than layoffs in the short run—because more employees and their dependents stay on expensive benefit programs like health insurance—over the long run those additional costs are more than offset by savings in recruiting, employment, training, and retraining costs that would otherwise be incurred.

Motorola's interest in the concept of short-time compensation came about as a result of the traumatic experiences associated with the recession in 1974–75, and at that time we dedicated ourselves to develop alternatives to layoffs. We sincerely believe in the concept and benefits of short-time compensation. We have committed our time and effort to convince the States where we have major concentrations of employees to adopt short-time compensation programs.

For example, Arizona's worksharing law, which became effective on January 1 of this year and which Senator Mack addressed this morning, has over 70 companies who have filed worksharing applications. At Motorola alone in the Phoenix area we have 13,000 employees participating in a worksharing program and we have been able to preserve almost 1,000 jobs. I might add that if we would have had worksharing available to us in the Phoenix area in 1974 and 1975, we could have salvaged 60 percent of the employees that we laid off and we could have preserved their jobs.

The program is working at Motorola and we believe that the enactment of H.R. 5904 by Congress will encourage more States to adopt short-time compensation legislation. With the technical assistance to be provided by the Department of Labor as directed by the bill, short-time compensation programs can be effectively implemented and evaluated.

In conclusion, I would like to make one very significant point. Motorola does not believe that short-time compensation or any formal of worksharing should be a substitute for prudent and efficient management which can minimize the necessity for layoffs or reduced wages and hours. However, we believe that short-time compensation is a sensible alternative to layoffs and is vital in maintaining productivity and quality levels which will help American companies such as ours to compete and to survive in this highly competitive industrial environment.

Thank you.

[The prepared statement follows:]

STATEMENT OF C. F. KOZIOL, CORPORATE DIRECTOR OF PERSONNEL ADMINISTRATION, MOTOROLA, INC.

This statement is being submitted by Motorola, Inc. in support of H.R. 5904, the Short-Time Compensation Act of 1982.

Motorola, headquartered in Schaumburg, Illinois, was founded in 1928. The company is primarily engaged in the design, manufacture and sale of two-way radios and other forms of electronic communications systems, semiconductors, electronic equipment for military and aerospace use and data communications products. We employ over 75,000 people. Inasmuch as our products are used in capital goods, we are a company that is very much impacted by fluctuations in the economy.

Motorola's support for the concept of short-time compensation is based upon a genuine concern for three affected groups:

First, a concern for the welfare of all Motorola employees and their families, including minorities, females and other protected classes.

Second, a concern for the welfare of the communities where Motorola facilities are located.

Third, a concern for the welfare of the corporation whose survival depends upon the retention of a fully trained and productive work force to compete effectively.

The traumatic effects that layoffs have upon workers is well known: the shock, the grief, the concern, the embarrassment that overcomes the individual; the stigma of facing family and friends; the financial sacrifices that become necessary; the shattered dreams of providing the necessities of life—in short, the dignity of the individual is destroyed.

Under the concept of short-time compensation, workers would maintain their skills and advancement opportunities. Those most recently hired would suffer less financially and pyschologically. They would have fewer work-related expenses. But most importantly, workers would maintain fringe benefits which otherwise they could not obtain or could not afford, primarily health and life insurance and pensions. It is true that senior employees would suffer a reduction in hours and income; however, the experience of several companies, including Motorola, has demonstrated a willingness on the part of employees to make that temporary sacrifice for their co-workers.

With regard to the community, short-time compensation would result in a more equitable distribution of the impact of an economic downturn. The need for public assistance expenditures would be lessened and a smaller retrenchment in consumer spending would probably occur. Short-time compensation would also preserve the integrity of affirmative action programs.

And finally, there are numerous benefits to the employer. First and foremost, short-time compensation enables an employer to maintain and improve existing levels of productivity and quality which are essential to the survival of the business enterprise.

Significant costs are avoided by not having to recruit, train and retrain workers. Additional costs associated with employee transfers downgrading and bumping between jobs are also avoided since the work force remains intact. Finally, the employer would have the capability to expand rapidly when the economy recovers.

We feel that these advantages far outweigh the short-term disadvantages of higher fringe benefit costs that would accrue to the employer and the risk of losing valuable employees whose skills would enable them to locate full time employment elsewhere.

Motorola's interest in the concept of short-time compensation came about as result of the traumatic experiences associated with the recession of 1974–1975 and Motorola dedicated itself at that time to develop alternatives to layoffs.

A thorough study and analysis was conducted on the concept of short-time compensation. Our study included meeting with Lilian Poses, a New York labor attorney, whose Poses Plan was the first major effort to provide short-time compensation legislation in this country. We met with State Senator William Green of California and officials administering the California program. Meetings were conducted with such employer organizations as the Texas Association of Business, Associated Industries of Florida and the Arizona Association of Industries.

Our efforts culminated in a study conducted in the summer of 1980 by the Arizona Department of Economic Security to determine interest in and support for short-time compensation in the State of Arizona. The study conclusively demonstrated enthusiastic support by workers, employers and labor organizations. Legislation was introduced by Senator James Mack and was overwhelmingly passed by the Arizona legislature by a vote of 83 to 1. Incidentally, a similar study is presently planned in Texas under the sponsorship of the Texas Association of Business.

Arizona's shared work unemployment compensation law became effective on January 1, 1982 and over seventy companies have filed work sharing applications in the first three months since then. Motorola has been able to avoid layoffs in its Phoenix area operations by having 13,000 employees participating in work sharing program. The Arizona law has helped preserve the jobs of 1,000 workers and has resulted in substantial cost reductions to the company. This is in marked contrast to the recession of 1974–1975 when 30% of Motorola employees were left jobless and were forced to place 2,000 homes on the market. Had short-time compensation been available, 60% of the employees laid off could have been retained on the payroll.

Motorola is totally committed to the concept of short-time compensation as an alternative to layoffs. Evidence of that commitment is contained in a letter sent to the Department of Labor on July 25, 1979 by Robert W. Galvin, Chairman of the Board, Motorola, Inc., which read in part:

"We believe that short-time compensation should be promoted as an alternative to layoffs and we are willing to cooperate with the Department of Labor in demon-

strating its soundness and feasibility. Toward this end, will provide data relating of productivity, absenteeism and turnover; we would structure our internal procedures to meet Department of Labor specifications in support of the program."

We wholeheartedly agree with Wilbur Cohen, former Chairman of the National Commission on Unemployment Compensation, who, during our meeting with him and his staff almost two years ago, termed short-time compensation the most innovative proposal to change the unemployment insurance system since its inception over 40 years ago.

In conclusion, Motorola does not believe that short-time compensation or any form of work sharing should be a substitute for prudent and efficient management which can minimize the necessity for layoffs or reduced wages and hours. Short-time compensation should only be utilizled as a last resort, after all other reasonable efforts to turn down the business have been exhausted. But, in the final analysis, short-time compensation is a far better alternative than layoffs.

Chairman FORD. Are there other companies like yours that would support the legislation or that would lend support to the legislation? I think you made mention in your closing statement that Motorola as well as other companies would welcome this legislation.

Mr. KOZIOL. Mr. Chairman, I do not think there are any other companies such as ours that have pioneered in support of the effort to the extent that we have, but I could name you several companies in California, for example, that have been utilizing this program, that have been very, very pleased with the results.

Chairman FORD. So the success story is already there in place.

Mr. KOZIOL. For the companies that have used it, yes, but it takes quite a bit of courage to implement it. Many companies are fearful that if they go to a reduced workweek they may lose some of their more senior employees, some of the more highly skilled employees.

Chairman FORD. Why do you say that? I mean, why would they be intimidated by losing some of their——

Mr. KOZIOL. We are experiencing a change in the attitude of the American worker. Previously the thought was if I have got the seniority then I should not make the slightest sacrifice for the newly hired employee. We are finding now that people are willing to share the work and share the sacrifices and the burden for a reasonable period of time.

Chairman FORD. And you find that true among the corporate management or the employees?

Mr. KOZIOL. Absolutely.

Chairman FORD. Both?

Mr. KOZIOL. We took a survey at our place of these 13,000 employees, asking them which of many alternatives would they support to cope with our economic downturn, and overwhelmingly the indication was they would rather share the work than go to the layoff alternative.

Chairman FORD. If these people are laid off that we are talking about—these highly skilled and trained personnel that we are talking about—would it be that you could not identify or recruit or find these people or call them back to work in 6 or 12 months when the economy is turned?

Mr. KOZIOL. Mr. Chairman, unfortunately your highly skilled, the skills that are in demand, chances are we would not be able to recall those people. They have marketable skills. They will move elsewhere.

Mr. COOPER. Mr. Chairman, one thing I would like to point out also is when you are engaged in one of these massive layoffs it is not simply the production workers that are being laid off. It is engineers, Ph. D.'s—people you do not find replacements for on every street corner. We had, after the last recession was over and business was picking back up, some jobs—critical jobs—that went unfilled for a year or more while we were searching for replacements.

Chairman FORD. I support the legislation, and I am trying to view it in terms of the present unemployment rate.

I am sure that in the last recession, I guess we did have unemployment at an all-time high during the last recession. But I was concerned about these people. Where would they go? Where do they go to find a job? I do not know where all of these jobs are, if you have a massive layoff of all these engineers and Ph. D.'s and other highly skilled personnel.

But I support the legislation. I have talked with Congresswoman Pat Schroeder, who is the prime sponsor of the bill, and I do support the legislation. I think it is a good bill. I would like to see the Congress act on the legislation sometime in the near future.

Mr. KOZIOL. I have not seen the final report out of California, but some of the early indications were that the average duration of people receiving unemployment compensation benefits under the work-sharing program averaged about 5 weeks as opposed to about 12 weeks for people who were on permanent layoff and receiving full unemployment compensation benefits—I would say a significant difference in terms of remaining on the unemployment rolls under one program versus the other.

Chairman FORD. Yes, but the point I was trying to make is you are talking about the legislation. If it was acted upon, wouldn't you still be intimidated or threatened of losing those highly skilled Ph. D.'s, engineers, employees with a, say, 20-percent cutback in salary?

Mr. COOPER. We figure it is a lot less likely that we are going to lose them if they are on a 4-day workweek or a 4½-day workweek and maybe only missing only 1 day every 2 weeks with their retaining their benefits and getting prorated unemployment benefits and not incurring the work-related expenses.

Chairman FORD. But if they are so highly sought after, wouldn't you still be under that threat of losing them?

Mr. COOPER. There are going to be some who are probably going to be lost.

Mr. KOZIOL. Of the 13,000 people that we have participating in this program, about 2,500 are professional and managerial people. They are all participating to the same extent as the unskilled employees. We have lost very, very few, if any, that I know of because of this program.

[The following was subsequently received:]

MOTOROLA, INC.,
April 23, 1982.

Re: H.R. 5904, the Short-Time Compensation Act of 1982.

Hon. HAROLD E. FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR CHAIRMAN FORD: On April 21 Mr. C. F. Koziol and I testified in support of H.R. 5904 before your subcommittee. In the course of our testimony we pointed out that many of the employees our Semiconductor Sector had laid off in the Phoenix area in the last recession, in 1974–75, were not available for recall when the economy recovered. You asked where they had gone, and we were unable to provide specifics at that time.

I have since put your question to Charles R. Debow, Jr., a member of our Semiconductor Sector's Personnel Department who was present and involved in those events. Mr. Debow has provided me with the following information, which I transmit to you for inclusion—if you deem it appropriate—in the record of the hearings.

Two background facts are important to an understanding of the situation. First, the semiconductor industry had had a very cyclical history at that point, with booms being punctuated by severe downturns at almost precise four-year intervals. Second, the Phoenix area, where our semiconductor manufacturing facilities were concentrated, had experienced enormous population growth through migration from other parts of the country, principally the Upper Midwest. These new arrivals were not only retirees: most were young adults.

With respect to the skilled workers, professionals and managers we laid off who were not available for recall, there were four major reasons: (1) Some returned to the geographic area they had left to come to Phoenix. (2) Some abandoned the semiconductor industry altogether to search for jobs in "less volatile" industries. (3) Some found jobs in the aerospace industry; many aerospace firms, because of government contracts, were hiring despite the recession. (4) Others found jobs in other semiconductor companies that, recalling the severe pre-recession shortage of skilled workers and engineers, did not lay off but indeed selectively hired for those positions during the recession.

One of those same factors was responsible for many laid-off production and clerical workers being unavailable for recall: relocation to another part of the country. In addition, a number simply refused to return to Motorola because they were angry at having been laid off.

Our employees' attitudes toward the worksharing/short-time compensation program in which they now participate stand in stark contrast to that anger. They are proud of their company for taking a leadership role in devising alternatives to layoffs. Indeed, Mr. Debow described worksharing with short-time compensation as one of the best employee relations programs he had seen.

As Mr. Koziol testified, we calculate that the availability of short-time compensation in Arizona has saved over 1,000 Motorolans' jobs. We commend the concept to the Subcommittee and urge it to pass H.R. 5904.

Respectfully,

LESTER L. (TERRY) COOPER,
Assistant Director, Congressional Relations.

Chairman FORD. Mr. Koziol, let me thank you very much—you and Mr. Cooper—for appearing before the committee. Thank you very much.

Mr. Gonzalez.

STATEMENT OF AL GONZALEZ, LEGISLATIVE DIRECTOR, NATIONAL ASSOCIATION OF SOCIAL WORKERS, ACCOMPANIED BY SUSAN REES, DIRECTOR, NASW BLOCK GRANT PROJECT

Mr. GONZALEZ. Mr. Chairman, I will make a brief statement and then submit materials for the record. I have with me Susan Rees, who is the national director of the NASW's block grant project. I am Al Gonzalez, legislative director for the National Association of Social Workers. Ms. Maxey could not be here today because we just completed two conferences and she is recuperating from that.

Chairman FORD. I hate to put you under any time constraint, but we will be going into a joint session in very few minutes and I am not sure that the committee can sit while the joint session is in.

Mr. GONZALEZ. We will be very brief. First I want to say that we will be submitting material for the record.

Chairman FORD. It will be made a part of the record.

Mr. GONZALEZ. And I want to mention that the material is a result of a number of surveys which were completed in the last 45 days. One includes a survey of 1,000 hospital social work directors nationally, with particular interest on the connection of medicaid and AFDC.

A second survey is of 47 chairmen of aging committees in 47 States, and the third survey has to do with 300 individuals participating in a block grant project in 9 States.

For the moment, I would just like to make a few brief remarks. First, I want to state our support for your bill, H.R. 5791, to increase funding for title XX, correct the work disincentives in AFDC and increase authorization for low-income energy assistance program.

Second, I would like to state that the National Association of Social Workers is mystified at the budget negotiations which are taking place and which are reported in newspapers regularly. First, the so-called compromise appears to give the President 94 percent of what he wanted in entitlement and nondefense discretionary programs over the next 3 years.

This is not negotiating. This is a capitulation to the administration's initial proposals. I would hope that the chairman will scrutinize very carefully any so-called compromise which appears before the House.

Now, in addition to this I will be submitting some materials on AFDC, particularly relating to the work incentive program. In addition to your proposal, we will comment as well on some comments which have been made by Mr. Schweicker and Mr. Swann before the full committee and the subcommittee, but for the moment I would like Susan Rees to describe some of the comments and some of the monitoring results of our block grant project with respect to social services.

Susan.

Ms. REES. Thank you. Mr. Chairman, the social services block grant cuts we are finding are being handled in a variety of ways. I would like to just mention a few of the trends that we have observed through our project.

First, although many states this first year have adopted across-the-board percentage reductions in programs, most are doing everything they can to maintain services that deal with the life-threatening situations. But even then the quality of those services appears to be diminishing as a result of overloaded workers and attempts to raise their productivity in the handling of cases.

In Milwaukee, to give you a recent example, an infant died of starvation only weeks after a case worker visited the home. Case overload and the abandonment of a child abuse specialist team approach, an efficiency move on part of the Department of Social Services, contributed to this tragedy.

Children's protective services is only one of three mandated programs which the California Adult and Family Services Division has maintained with their existing regulations in dealing with the title XX cuts. Nevertheless, the California agency reports:

This will generally result in increased case loads and a decreased ability to provide direct services to clients.

There is also the possibility that the personnel actions taken to alleviate the budget cuts will initially result in less indepth evaluation of cases, including the monitoring functions. There will be a significant departure from the programmatic ideal of prevention of problems, especially in the family service area and only individuals and families in crisis will be the recipients of services. We will see more paperwork and less services.

This is coming at a time when we are constantly hearing of increased incidents of child abuse. Only a few days ago, on April 14, the Pennsylvania welfare department announced that it had recorded a 6 percent rise in substantiated child abuse reports and a 28 percent rise in abuse-related deaths between 1980 and 1981.

To return to California just briefly, the only other mandated services besides child protection to continue to be mandated, with State regulations intact under the block grant, were in-home supportive services and out-of-home care services for children. The Department repealed program content regulations but maintained the mandate for adult protective services and out-of-home care information and referral. Meanwhile, four title XX programs and their regulations were repealed.

Cutbacks such as these in programs that serve children and people support the need for more title XX funds and show the potential ill effects of a child welfare block grant with reduced funding.

In addition, we again ask you to look hard at any budget compromise to make certain that it does not further reduce these discretionary programs.

Mr. GONZALEZ. We would be happy to answer any questions.

[The prepared statement follows:]

STATEMENT OF ALFONSO J. GONZALEZ, SENIOR STAFF ASSOCIATE, LEGISLATION, AND SUSAN E. REES, DIRECTOR, PROJECT BLOCK GRANT, NATIONAL ASSOCIATION OF SOCIAL WORKERS

Mr. Chairman, last year, the Reagan Administration requested and the Congress enacted cuts in most discretionary domestic programs, including many within the jurisdiction of this subcommittee. The cuts in most discretionary social service and health programs ranged from 20 to 33 percent. Earlier this year, the Administration proposed reduction of similar magnitude for fiscal 1983.

These proposals will only erode the basic life-supporting programs—SSI, AFDC, social services and others—for needy Americans. NASW urges the subcommittee to support:

1. That funding for social services be increased over fiscal 1982 by the Congressional Budget Office forecast for 1981 growth in the Consumer Price Index, 6.9 percent.

2. That a moratorium on block grant creation, specifically the proposed Child Welfare Block Grant, be called; and

3. That the work incentive in the AFDC program for the working poor be restored.

In light of early information of last year's brutal cutbacks, these proposals are modest. Even with the increase, funding for social services would be below fiscal 1981 outlays; block grants already in existence have yet to go through one full fiscal year; and, it is now even clear to House Republican members who supported the President that the financial incentive that once existed for families to work their way off welfare have left many without the collateral protection of Medicaid.

Several surveys undertaken by NASW and social workers since February of this year begin to show the human damage caused by last year's cuts:

SOCIAL SERVICES AND THE ELDERLY

Social services for the elderly are provided under both the Social Services (title XX) Block Grant and the Older Americans Act. NASW conducted a small survey of some of our members who work in aging programs, ranging from church-affiliated to state level agencies. The brief, sample survey sought information on the services impact of the fiscal year 1982 Reagan budget cuts on the elderly as of the end of February. Since Older Americans Act funding was not cut to any real extent last year, we believe most of the impact we detected in the survey was due to cuts in title XX. The replies reflected a cross-section of states, including Providence, Rhode Island, New Orleans, Louisiana, New York City, Pittsburgh, Pennsylvania, El Dorado, Arizona, and Los Angeles, California:

Ten out of 15 of the social workers contacted told us that services for the elderly had been affected by the federal budget cuts. Others were anticipating cutbacks later in the year.

The percentage of elderly clients affected ranged from 5 to 100 percent and averaged 43 percent. One state official reported 40 percent of the state's elderly population is affected by reduced services.

Transportation, which is a critical service need of many older persons, was by far the most frequently mentioned service that has been reduced or eliminated.

Homemaker services ranked second when we asked respondents to name affected services.

Other affected services mentioned included adult protective services and day care, employment, home visits and generally reduced frequency of all services.

The interdependence of income support and social services always surfaces when we ask social workers to tell us about the impact of funding cuts. In the survey of our aging network, Supplemental Security Income, Medicaid and Social Security were frequently mentioned as causing problems for clients. One social worker from Arizona wrote us: "If they cannot get Social Security Disability, SSI or Medicaid, the elderly are being forced to go back into the job market at slave rates. For example, a companion job—room and board, plus five dollars per 24 hours."

A Rhode Island social worker wrote: "I am coordinator of an elderly program within a community mental health center. Although our money has not been cut directly, our clients in the mental health system are being hit hard by decreases in food stamp and housing subsidies as well as decreases in medical benefits. We are seeing an increasing number of very anxious and depressed older people as a result of the Reagan cuts. There is a particular panic regarding rumors of Social Security being dismantled."

BUDGET CUTS AND THE VULNERABLE

The impact of federal budget cuts have clearly hurt those who rely heavily on publicly funded services to maintain a minimum standard of living. To assess the federal budget cut impact on hospital-based social work, NASW (and the Society for Hospital Social Work Directors) conducted in February a survey of 1,000 hospitals. From the 225 social work departments in 45 states reporting, we learned:

The greatest impact has been on the aged, the poor, near-poor, the chronically ill and high-risk patients.

Children were rated as more severly impacted by service cuts than either adolescents or adults.

One hundred and fourteen respondents reported reduction or elimination of community social services including transportation for the medically needy, homemaker/home health aide services, and preventive and mental health services and child protection services.

These responses verify the general concern that the most vulnerable populations are being affected the most. Thus, President Reagan's fiscal 1983 budget proposal, especially for Medicaid and social services, will only compound the damage. The trend appears to be toward a potential breakdown in linkages with social services provided by the community, causing greater dependency on costly in-hospital services.

The full report on the survey is currently being analyzed and will be made available to the public in late May.

AFDC AND BENEFIT REDUCTIONS

To assess the impact of AFDC changes on recipients of public assistance in Chatham County (Savannah, Georgia), Dr. Neil Satterfield of Armstrong State College randomly selected 51 welfare cases from the county files for study in October, 1981. The area medical benefits loomed as the most serious problem. A definite change in health care patterns emerged:

The loss of Medicaid has meant that 43 families have turned to locally tax-supported health facilities with no federal subsidy via Medicaid reimbursement for health care, thus, shifting the financial burden.

Twenty-two recipients who lost Medicaid formerly needed it once a month or more for their families.

Thirteen families reported worsening health care since October, 1981. It is reasonable to assume that this trend will increase since all measured change has been negative in the six months lapsed time of the study.

We have seen this pattern emerge in other states: A working mother has to decide whether to quit her job to save her medical benefits and lose the "self respect" she has acquired by bringing home a monthly paycheck.

Clearly, the working poor are people who do not identify as welfare recipients and usually do not receive the majority of their income from AFDC. They see themselves as temporarily unemployed or underemployed as low-income earners. In effect, they see themselves as "good people" in the core culture sense.

Categorical eligibility for Medicaid by AFDC recipients is a crucial benefit. No working poor recipient can afford to lose Medicaid because few working poor recipients can afford the costs of private insurance coverage. Medicaid had just begun in 1967. Therefore, the "notch" effect of losing Medicaid insofar as it resulted in reduced work effort was not measurable at that time.

These real life vignettes and brief studies of people in need illustrate the painful consequences for poor children, elderly and families of last year's Administration cuts. For this reason, NASW urges this subcommittee to reject any White House fabricated "compromise" for fiscal 1983 in needs tested entitlements and social services which results in cuts to vital programs on which millions depend.

On bills before this subcommittee, NASW has the following comments:

H.R. 5791 increases social services funds by $200 million per year through fiscal 1983-1985. This modest request does not begin to address the question of current and growing needs, many of them the result of personal and family stress associated with the Administration's economic policies. The amounts, however, are realistic in light of the current federal budget turmoil in Congress. NASW also supports the increases for low-income energy assistance and earned income that is disregarded in determining AFDC eligibility and benefit amounts. To do otherwise is to abandon the working poor to a marginal existence.

On Medicaid, two bills which restore a measure of health care coverage, in different ways, to the working poor have been introduced in Congress—one by Rep. Henry Waxman, chairman of the subcommittee on Health and the Environment and the other by Rep. Willis Gradison. The Administration could show sensitivity to this problem by supporting either bill or at least the intent behind the measure.

NASW believes that this Congress must find a way to provide medical coverage for these poor working families, as well as restore some of the incentive to work. NASW's preference is for a restoration of eligibility rules as existing prior to October, 1981.

In summary, NASW urges this subcommittee to reject the Administration's fiscal 1983 budget proposals and any "compromise" which results in undermining needs tested entitlements and social services programs under your jurisdiction. The results of last year's questionable budget cutting stampede on programs which serve the needy are coming in, and the picture is a painful one, if not counterproductive to interests of poor Americans. At a minimum, these programs should be maintained at fiscal 1982 levels in the budget year ahead.

Chairman FORD. Mr. Gonzalez, I would like to maybe pose one or two questions, but I was looking at the clock and I just turned around and asked staff. I am not sure that we can sit while the Congress is in a joint session. That is why I am looking at the clock and they are going in in 3 or 4 minutes and I want to conclude the business of the committee today.

I would like to thank you personally for your appearance, the two of you, for appearing before the committee today and providing

us with the information that you have presented. Again, let me thank you very much for coming and I am sorry that Mrs. Maxey was not able to make it.

Thank you very much for coming. The committee is scheduled for 10:00 a.m. Thursday morning. I would like to ask staff to notify members of the committee that we are going to try to start 15 minutes early tomorrow rather than at 10:00, at 9:45 since we have so many witnesses who will be testifying tomorrow. If the staff could do that we could get 15 minutes ahead of schedule. If there is no other business we will adjourn until 9:45 Thursday morning.

[Whereupon, at 3:24 p.m., the subcommittee adjourned, to reconvene at 9:45 a.m., Thursday, April 22, 1982.]

ADMINISTRATION'S FISCAL YEAR 1983 LEGISLATIVE PROPOSALS FOR UNEMPLOYMENT COMPENSATION AND PUBLIC ASSISTANCE

THURSDAY, APRIL 22, 1982

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION,
Washington, D.C.

The subcommittee met at 9:45 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

Chairman FORD. The Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means will come to order.

This is the second day of public hearings on the administration's fiscal year 1983 budget proposals on programs within the subcommittee's jurisdiction, by the administration as well as the legislation listed on the press release announcing these hearings.

I would like to welcome all of the witnesses and all of the members of the Public Assistance and Unemployment Compensation Subcommittee. I would like to announce at the beginning of today's session that we will abide by the 5-minute rule for each witness presenting testimony as well as for questions from members of the subcommittee.

Yesterday we did not impose the 5-minute rule, but today we are forced to do it because of the long list of witnesses testifying today.

The first witness this morning is our very distinguished and outstanding colleague from the State of Colorado, Congresswoman Pat Schroeder. Mrs. Schroeder knows of my support for her bill, H.R. 5904 regarding worksharing, which is pending before the subcommittee.

We are delighted to have you with us today. We are very proud of the fact that you are here to tell us about the bill. At this time, Congressman Anthony, do you have any comment?

Mr. ANTHONY. I have no extended remarks other than to say welcome to the committee, and we look forward to hearing your testimony along with all of the other interested witnesses.

STATEMENT OF HON. PATRICIA SCHROEDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mrs. SCHROEDER. Thank you very much, Mr. Chairman. I would like unanimous consent to put a letter from the Urban League into the record supporting this legislation.

Chairman FORD. It will be made a part of the record.

[The letter follows:]

NATIONAL URBAN LEAGUE, INC.,
Washington, D.C., April 21, 1982.

Hon. PATRICIA SCHROEDER,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN SCHROEDER: As you know, I will be out of town when the Ways and Means Committee holds its hearings on the "Short-Time Compensation Act of 1982," and have had to decline the Committee's offer to testify. I did want to voice my support for your bill though, so that the National Urban League would be on record in favor of this much needed legislation.

The National Urban League has long supported the concept of worksharing, which would go a long way toward avoiding or at least minimizing layoffs by distributing available work among employees. Those who would otherwise be permanently laid off are instead scheduled for shorter work weeks, resulting in more individuals in the labor force and fewer in the unemployment lines.

The wisdom behind such an initiative is further bolstered in light of the staggering unemployment rate we are now experiencing. Clearly, we must do something to address this problem; short-time compensation is one approach. Further, the black jobless rate now stands at 18 percent, double that of the overall figure. Aggravating this disparity is the last hired-first fired syndrome. Employment gains made by blacks in recent years are being wiped out by this phenomenon; again worksharing would begin to address this.

The input of employers, employees, and the Department of Labor are sure to guarantee the effectiveness, equity, and ultimately the success of the program. The National Urban League stands ready to assist you as the deliberations proceed on H.R. 5904.

Sincerely,

MAUDINE R. COOPER,
Vice President, Washington Operations.

Mrs. SCHROEDER. I want to say one of the things that we hear when we talk about this legislation is that it won't solve all of the ills. I agree that it won't solve all of the ills, but it is a beginning. Short-time compensation has been an important experiment in three States, California, Arizona, and Oregon.

I think if this bill, H.R. 5904, were passed, it would provide at least a partial solution to some of the unemployment ills. One of the exciting things is the wide variety of groups that have supported the bill: civil rights groups, the AFL–CIO, and many business interests, such as Motorola, Inc. On the political side, we have cosponsors who range from conservative to liberals. I think using worksharing as an alternative to layoffs is a good thing to do. I am pleased to hear the chairman's statement that he may be able to move this bill out of committee because I think it is important.

My bill, the Short-Term Compensation Act, would direct the Secretary of Labor to provide technical assistance for States to help develop and enact their own voluntary short-term compensation plan.

Now, what that will do is to encourage States to amend their current unemployment insurance laws, so a prorated unemployment benefit could be paid to employees partially laid off.

Right now, if you layoff 20 percent of your employees, those 20 percent draw unemployment benefits. However, under this plan if everybody takes a reduced workweek and works 80 percent of the time, they get an unemployment benefit for the portion of the week they are laid off, and maintain their benefits.

What you would be doing by passing this legislation is encourage States to permit worksharing supplemented by unemployment benefits. Employers could then let their employees work 80 percent of their work time and prorate or share the unemployment benefit.

Using short-time compensation doesn't cost unemployment insurance any more than if you laid off 20 percent of the workforce. This program has worked very well in the States that have experimented with it, California, Arizona.

Work sharing, obviously, does not work for all industries.

If you are permanently going to have to get rid of 20 percent of the employees this would not be a solution. But the industries where it has worked very well are the ones where layoffs are temporary, where they think they will be able to call the people back or hope to call the people back.

We also know, there are benefits for people who were hired last, often young people, women, and minorities, who are usually the first out if you have to run a reduction in force.

Use of short-time compensation allows them to stay on board.

As I mentioned before outside interest groups that have been supportive of the bill, are terribly diverse. The chamber of commerce, the Urban League, the NAACP, the AFL-CIO, have all been talking to us about this bill and are very interested in the concepts it lays out.

The important thing is that you don't force anyone to do worksharing. This does not mandate worksharing. Basically, this bill authorizes the Secretary of Labor to help States to do what some States have experimented with. You never force this on an employer or employees.

The bill is very carefully drafted so that the employer must want to do it and the employees must want to do it before it is done. For a long time, there was some hesitation because people feared that this would be mandated.

Obviously, it isn't. There is also a fear that senior employees would never want to do this. I think the reason so many unions have turned around on this bill is they have found that their own members were very willing to use short-time compensation even the senior employees. They didn't want to layoff the young people who had families. Short-time compensation allows them to be compensated for their willingness to share their job with younger employees, who also need their paychecks, and medical benefits, and all of the things that they lose if they get laid off.

This allows all of them to be in better shape economically. Unions have turned around because they found out their older members were not as hard nosed as they thought they would be. I think that is why they would like us to move this bill.

This is basically what I am here about. I appreciate the opportunity and I think, short-time compensation is one more tool that we can put in our bag as we try to deal with these very difficult economic times.

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Chairman FORD. Mrs. Schroeder, yesterday, Mr. Cozial, representing Motorola Corp., testified on behalf of your legislation and he talked about how his own company tried to implement the program contemplated by your legislation.

I think AFL–CIO and other labor representatives yesterday also indicated they do in fact support your legislation. Basically, the legislation encourages the use of worksharing rather than massive layoffs.

Explain to me, if there were a company with 4,000 employees and they were about to layoff 500 of those employees, what would happen? Would management as well as all 4,000 employees participate in the program?

Mrs. SCHROEDER. Yes.

Chairman FORD. All 4,000 would participate. What happens if 15 percent, that 15 percent being those with seniority much greater than the newcomers on the job—those with highly skilled positions or engineers or whatever it might be—what happens if they say no?

Mrs. SCHROEDER. Obviously, we use the same principles we use everywhere else—the majority rules.

Chairman FORD. Fifteen percent could not opt out of it, say?

Mrs. SCHROEDER. The interesting thing is that even without this legislation, worksharing is happening. People are not that self-centered. When they say, "Gee, do we want to lay off these young people who have families?" the answer is "no." Senior workers are bearing a much bigger share of the burden because they can prorate the unemployment benefits if they work a reduced work week.

If you prorate the unemployment benefits my assumption is you will find senior people not wanting to lay off young people with families.

Financially, all workers will be a little better off because they are prorating the unemployment benefits. That is the big difference that we see. Originally, there was fear of this concept. You just stated the fear very well. People were awfully afraid that there would be the attitude of some people who would be really hard line and say, "We have worked here 20 years and it is our right" and out go the newer workers.

It just hasn't happened that way. People are much more interested in trying to stabilize the work force and not have layoffs. We are nicer than we thought we were.

Chairman FORD. Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman, Mrs. Schroeder, how would your plan be envisioned to work as far as the difference between a high unemployment area and a low unemployment area, Houston, Dallas, Tulsa, running very, very low unemployment rates?

For instance, one small county in my home district is running 25 percent unemployment because Reynolds Co. was required to lay off about 1,500 employees because of reduced orders. So how would the plans be drawn up so that——

Mrs. SCHROEDER. In all honesty, we are asking the Labor Department to work with States so States can deal with it individually in a more fine tuned manner than we can do at the Federal level.

To be truthful about it, in many instances, it won't help. If you are in an area where the layoffs occur because a product—buggy whips, for example, are no longer needed, compensated worksharing probably won't help. But it might help if you are in an area where the layoffs are very heavy because of a short downturn. Aerospace often gets into this bind because they get caught with a 3-month downturn of one sort or another.

You don't want to lose the skilled workers, have them put their houses on the market and start looking for other jobs. You want them to still be ready to return to work because you think 3 months or 6 months from now, things will pick up.

It is not so much how heavy the unemployment is in a certain area as it is what kind of an industry you are in. Compensated worksharing probably doesn't solve problems for industries that are truly on their way out. However, this may be a solution for industries going through ebbs and flows, who have highly skilled people they don't want to lose.

Mr. ANTHONY. Let's say I work for a buggy whip company and there is not enough horses for buggy whips so my job is phased out because of obsolescence. If you work for aerospace, you are laid off temporarily, because of the depth of the recession.

How will I be treated as drawing regular unemployment benefits and you drawing regular pay plus a prorated share of unemployment benefits. How will we be treated as far as the amount of money I will have to pay my mortgage, car notes, and buy food?

Mrs. SCHROEDER. Unemployment will be the same for you and the buggy whip employees as it was before. We don't touch that part of it. The interesting thing is probably your prospects for finding a job will be better if you want to stay in that region. They are probably going to be a lot better because you are not going to be competing with all of the people who would have been laid off except for the short-time worksharing compensation program, if you understand what I am saying.

Mr. ANTHONY. You are saying if you stay on the job and you have a pro rata share, you are not going to be drawing more money than on a weekly basis than I would if I am totally unemployed?

Mrs. SCHROEDER. If you add it to your salary that you get for the hours that you work, you will get more than a totally laid-off person. The advantage is you will not be out looking for another job. Do you see what I am saying?

Mr. ANTHONY. I see what you are saying. What I am trying to do is defend that particular employee whose job is phased out because of the changing world, but whose economic circumstances are as real to him because of whatever reason, what he is looking for is dollars to keep his payments alive.

I am wondering——

Mrs. SCHROEDER. He will still get his unemployment benefits. It doesn't affect that at all. It is very possible you could use short-time compensation in that situation, too. If you had an employer who needed to make only half as many buggy whips in a certain year, he could put his employees on short-time so they can draw partial unemployment benefits while they go look for other jobs.

This is a tool employers could use, depending on the compassion of the employer. What I am trying to say is we are not mandating that anybody use it. I don't think any of us want that.

It certainly could be used to help phase people out gradually. One of the good parts is you would not be competing for available jobs with a lot of people who were temporarily laid off since they receive four-fifths salary and unemployment benefits, they would not have to search for an immediate income source. This would mean less competition for those workers who are eventually laid off permanently.

Mr. ANTHONY. Thank you very much.

Chairman FORD. Thank you very much, Mrs. Schroeder. We would again like to thank you for your testimony before the subcommittee on this legislation as before.

Mrs. SCHROEDER. Thank you, Mr. Chairman. I really appreciate it.

[The prepared statement follows:]

STATEMENT OF HON. PATRICIA SCHROEDER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Thank you very much for the opportunity to be here today to promote creative legislation that helps cushion the shock of unemployment.

My bill, the Short Time Compensation Act of 1982 directs the Secretary of Labor to provide technical assistance for states to develop and enact their own voluntary short time compensation programs. Such a program would amend current Unemployment Insurance laws so that a prorated U.I. benefit could be paid to employees laid off for a portion of the workweek, as part of a worksharing plan to avoid total layoffs of some of the employees. My bill would sunset after three years.

The few changes in this bill from prior short time compensation legislation result from discussions over the past months with different groups, specifically the AFL–CIO and Motorola Inc. I personally want to thank them for their interest and help. The new bill, H.R. 5904, removes the demonstration project proposed in the old bill. Since there is no demonstration project, the new bill contains no funding authorization. The new bill also directs the Secretary of Labor to conduct a more detailed evaluation of short time compensation in participating states after consultation with employer and employee representatives over evaluation criteria.

Since I originally introduced the legislation, interest and support has sprung up from opposite corners of society and from all levels of government. The 14 current cosponsors are rarely found on any bill together. Two cosponsors sit on this subcommittee. Senate interest is high and a companion bill is soon to emerge. You heard testimony yesterday from an Arizona state legislator and you will receive testimony from California.

The outside interest groups involved and interested in this bill are diverse to say the least. The Chamber of Commerce, the National Association of Manufacturers, the Urban League, the AFL–CIO, and the NAACP have been interested enough to talk about the concept and the bill. If ever there was a product of the entire spectrum of interests in America, that is it.

It's easy to see why this bill attracts so many. Employers see short time compensation as a way to retain a valuable workforce and avoid the cost associated with layoffs and eventual recruiting, rehiring and retraining of workers. Enough safeguards exist in the legislation, however, to insure the employer does not take advantage of the worker, or the Unemployment Trust Fund. The worker benefits by keeping his or her job and still make close to 90% of their regular weekly take home pay, as the California experience shows. This job security means everything to the people who are prone to the last hired-first fired syndrome: the women, the youth, and the minorities.

Some people wonder why the federal government must get involved with unemployment compensation, a state matter. They point to California, which has run a very successful short time compensation program on its own since 1978. They point to Arizona, which recently started its own program. They also point to Oregon, which recently enacted short time compensation into law. These states deserve credit for taking the initiative. Passage of this legislation would pin a federal badge

of legitimacy on those states for their efforts and assure that they are in compliance with federal unemployment compensation laws. Many states shy from programs that have not been initiated or studied by the federal government. The expertise in Washington can be valuable to a state for information and non-financial assistance in running a short time compensation program.

The study the Department of Labor must conduct will assist federal and state policy makers in evaluating the results of short time compensation programs. It will measure such factors as the impact of the program on the unemployment trust fund, the extent to which the jobs of women and minorities have been protected, and if short time compensation artifically alters the national or state unemployment rate.

But more importantly, this bill will add to our knowledge of the nature of unemployment. Congress must take the lead to diminish the agony of national unemployment. To do this, it needs to learn more about the problem and pool its ingenuity with the states. One state cannot help the other 49. The federal government can.

At the same time, Congress must look for ideas to improve our sagging productivity. Short time compensation is one tool that can be used in a cooperative fashion by the employer and employee to improve industrial relations and productivity. Signs of this are appearing in California firms using short time compensation. National productivity is why federal involvement is so important and why H.R. 5904 is do attractive.

Chairman FORD. The Chair will now call our colleague in the Congress, Hon. James L. Oberstar of Minnesota. I personally welcome you to the Public Assistance and Unemployment Compensation Subcommittee.

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. OBERSTAR. Thank you very much, Mr. Chairman, I appreciate the opportunity to be here this morning. I am here on behalf of the people of Minnesota who are out of work, who want action on unemployment compensation, who want this committee to extend unemployment compensation benefits.

The Nation's unemployed need the additional 13 weeks provided in your bill, H.R. 6085, Mr. Chairman. I want this subcommittee to act. I will do whatever I can to help you and this subcommittee to get that bill through the Congress.

With the national unemployment rate at 9 percent, the need for action is critical, delay is intolerable for millions of unemployed Americans. I am here on behalf of those for whom trickle-down economics hasn't worked, for whom it has meant unemployment, for whom Kemp-Roth and 10-5-3 simply are what Kenneth Galbraith called incantation economics.

My district produces two-thirds of the iron ore required by the Nation's steel industry. In good times, the taconite industry has 14,000 people at work. By June 6, that work force will be down to 2,000 people.

The unemployment in the iron ore mining area of northern Michigan's, Upper Peninsula is no better. By the end of May, 4,000 workers in taconite production there will all be laid off. People of northeastern Minnesota are afraid. Not just concerned, but afraid about the future.

They fear they are facing the reincarnation of the Great Depression.

Let me run through the numbers. At the national steel plant, which produces taconite pellets used in steel-making, 600 unemployed now, 400 more will be laid off in April.

At the United States Steel plant, 2,000 laid off since October, 2,200 more will be laid off on June 1, the plant will be completely shut down, the largest taconite-producing facility, not only in Minnesota but in the United States and the Western World.

Inland Steel, 300 workers will be laid off on May 30. Erie Mining Co., 1,500 will be laid off July 4, the plant will be virtually shut down. Hibbing Taconite, 900 laid off July 4, the plant shut down.

On July 1, 3,400 unemployed miners will have exhausted their extended unemployment compensation.

Chairman FORD. On what date?

Mr. OBERSTAR. 3,400 by July 1.

Chairman FORD. Extended benefits run out when?

Mr. OBERSTAR. July 1. There are no jobs for them elsewhere in northeastern Minnesota. The other major employment sector of our economy, construction, has 75 percent unemployment. The administration is telling these people, leave their communities, vote with your feet, find a job somewhere else.

They have looked. A few have found $4 an hour jobs in the oil fields of Texas and a handful have found jobs in the coal mines in Wyoming. They can't bring their families because there isn't housing.

The question is where do 12,000 iron ore miners go in a country that has 9-percent unemployment, nearly 10 million people out of work, 6 million more working short weeks?

It is hard on the communities in which these peopple work and live. Small businesses are hurting.

People who depend on the mining and construction industries are now beginning to close their doors as well.

They didn't cause unemployment or the economic condition of this country. It was brought on by national economic policies. The country as a whole has the responsibility and the resources to help those who are least fortunate in this land of ours.

These people are not freeloaders, they are not in bars spending their unemployment checks. They are trying to make ends meet.

For the first time, all throughout this area, characterized by hard-working people for generations, whose lives are built around the mines, forests and tourism, there is a growing sense of hopelessness regarding the future.

They are looking to this committee. You have the authority. There are a number of steps the subcommittee should take, I have outlined them in my prepared statement.

[The prepared statement follows:]

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman, members of the subcommittee, I am here today because I want this Committee to act immediately and favorably on H.R. 6085, legislation to provide unemployed Americans with an additional 13-weeks of unemployment compensation to be funded from general revenues. Unemployed Americans in this country desperately need the assistance which this Subcommittee alone can initiate.

With the national unemployment rate at 9 percent, the need for action is critical. Delay will be intolerable for the millions of unemployed.

I am here on behalf of those of my constituents for whom "trickle down" economics is an empty promise, a mere incantation offered as a justification for ignoring Americans who cannot find the jobs they desperately want.

My Congressional district in good times produces two-thirds of the Nation's iron ore. The taconite industry, with a normal work force of 14,000 men and women, will by June 6, actually employ 2,000.

The unemployment problem in the mining industry of northern Michigan is no better. All 4,000 iron ore miners will be laid off by the end of May.

The people of the Mesabi Iron Range, and throughout north-eastern Minnesota, are afraid that they are facing a reincarnation of the Great Depression.

The lay-off figures are devastating:

National Steel—600 current; 450 more in April.

U.S. Steel—2,000 laid off since October; 2,200 more June 1.

Inland Steel—300 workers to be laid off on May 30.

Erie—1,500 to be laid off July 4.

Hibbing Taconite—900 on July 4.

On July 1, 3,400 unemployed miners will have exhausted their extended unemployment benefits.

There are no jobs for these workers. Unemployment in the other major employment sector—construction—stands at 75 percent.

The Administration would have these workers leave their communities and vote with their feet. Where do 12,000 iron miners go in a nation with 10 million people unemployed.

While the mining industry suffers the most intense unemployment problem, it is a problem throughout the communities of my District. Double digit unemployment is prevalent in almost all counties, with rates up to 19.6 percent as of February.

I am here because I believe that the United States has the resources and the obligations to alleviate the suffering of the millions of Americans who are unemployed because national economic policies cannot stimulate productivity, investment, productivity and employment.

The people on behalf of whom I testify today are not freeloaders. They are hard-working Americans who are enduring one of the most difficult trials which industrialized society offers the individual—unemployment with its financial worries and personal crisies and the terrible sense of failure. For the first time in decades, there is a pervasive fear and sense of hopelessness about the future.

I am not here to plead that these people need welfare or charity, or to ask the pardon of this Subcommittee.

Congress must pass remedial legislation to correct the serious mistakes enacted in the hasty consideration of the Omnibus Reconciliation Act. The unemployment provisions would be analagous to cutting Medicare because too many people got old and sick. We must pass legislation which reflects not theory and myth, but the economic reality of unemployment at post World War II levels, and which addresses the consequences of that level of unemployment.

The Subcommittee has before it a number of important legislative proposals. In addition to approving Chairman Ford's legislation to provide for a 100 percent federally funded extended benefits program, H.R. 6085, I urge the Subcommittee to take the following actions:

1. Repeal the provisions of the Omnibus Reconciliation Act which eliminated the "national trigger" for extended federal/state unemployment benefits. Nine percent unemployment is a national problem. The national trigger reflected, for example, the fact that high unemployment in Michigan auto industry, translated into the loss of steel producing jobs in Pennsylvania and mining jobs in Minnesota.

2. Modify the increase in the state trigger scheduled to take effect October 1, 1982.

3. Establish a sub-state trigger mechanism for extended benefits which would effectively target benefits to high pockets of unemployment within a State.

As high as unemployment is throughout my District, unemployed workers in northern Minnesota were not eligible for extended benefits until the week of February 28. There is virtually no employment opportunities, and yet, without either the national trigger or a sub-state trigger, these workers were unable to obtain the extended benefits. The insured rate in Minnesota is hovering around 4.7 percent. I very much wish it would drop and quickly. When it drops, however, it will mean no extended benefits, but will not mean that prosperity has returned to my District.

I understand the difficulties in enacting and administering a sub-state trigger. I urge this Subcommittee to develop the framework so that it will exist, if not in time for the current crisis, for another.

My primary purpose today has been to urge prompt action on H.R. 6085 and modification of the trigger mechanism so that the relief provided by H.R. 6085 will reach all high-unemployment areas in our country.

Chairman FORD. Thank you very much, Mr. Oberstar. The committee will make your statement a part of the record.

I introduced H.R. 6085 to address the problem you referred to earlier about the 3,400 recipients now that have benefits running out by July 1. We have some 12.1 percent of unemployment in my State.

Within the next couple weeks we will find thousands of people moving off the unemployment rolls, simply because the 39 weeks would have been exhausted. I would hope that this committee here as well as the full Committee on Ways and Means and the Congress will approve some legislation that offers some relief in the area of supplemental unemployment benefits for these victims of the recession.

I thank you for appearing before the committee. I recognize Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman.

Mr. Oberstar, the subcommittee has met with several other interested Members of Congress and outside of Congress in trying to find a workable way to do what you have recommended on page 3 of your testimony; that is, establish a sub-State trigger mechanism. The discussion basically went like this: Because of the budget constraints knowing that we don't have the amount of money that we need to just totally fund all unemployment programs, realizing that a lot of unemployment problems are regional in nature and not—although the total numbers are unacceptable but still we have some areas that are growing and unemployment is zero.

I happen to represent a district in south Arkansas with unemployment in Arkansas running about what the chairman said, a little over 12 percent, the highest in the Nation. But my district is highest of four congressional districts, and one county has 25 percent. So I am very interested in some type of a sub-State trigger mechanism, something that could target our limited amount of resources to that area that really needs it.

We are having difficulty in finding the proper mechanism, the proper formula or the proper vehicle upon which to do that. So any assistance that you can give this subcommittee in doing that, or at least in this one member of the subcommittee, I would certainly like to work with you because that is, I think, the greatest opportunity to try to alleviate some of the pain and suffering going on in unemployment, yet realizing the budget constraints that we have, and also the political realization that we may have a difficult time getting out not only of the full committee but passed through Congress any bill that is going to really have a great deal of expenditure to it.

Mr. OBERSTAR. I appreciate the gentleman raising that point. I have great sympathy for those rates of unemployment. We have counties in my district with 20-percent unemployment. In those communities where the taconite plants are located, where there are 100,000 people, we will have far higher unemployment. The proposal for a sub-State trigger would save money nationally on unemployment compensation by targeting it more effectively.

The statewide unemployment rate in Minnesota, 7.7 percent, is not as severe as the national rate. Extended benefits "triggered on"

the last week in February, although in my district, unemployment has been far, far higher than the national average for months.

With regard to H.R. 6085, and the additional 13 weeks provided, target it to those areas that desperately need it.

The problem for workers in my district is compounded by the fact that many of them have not recovered from the recession of 1979 and 1980. They didn't build up enough credits to get maximum benefits during the current recession.

They are not worried about how we go about it; they want a result. There is a way to work it out. There isn't anything that is that difficult that the mind of Congress can't untangle it.

Mr. ANTHONY. I hate to think we couldn't collectively come up with a solution to it. I think that that is an area you will find a great deal of support. So I thank you for that comment and support of that thought. I look forward to any additional specific areas of ways that we might tie that to a vehicle.

Mr. OBERSTAR. I will be glad to join with the gentleman on that purpose.

Chairman FORD. Thank you very much for your testimony.

Mr. OBERSTAR. Thank you, Mr. Chairman, for holding these hearings and launching this effort. I am pleased to cosponsor your bill, H.R. 6085, and that of the gentleman from Ohio, Mr. Eckart, to undo the damage done by the Reconciliation Act.

Chairman FORD. Our next witnesses will be the Honorable Norman Dicks and the Honorable Dennis Eckart. Mr. Dicks, Mr. Eckart is the prime sponsor of H.R. 5284, the legislation you will be testifying on. I would like to call both of you together.

The Chair will recognize you, Mr. Dicks, at this time.

STATEMENT OF HON. NORMAN D. DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. DICKS. Thank you, Mr. Chairman. I appreciate this opportunity to testify in favor of H.R. 5284, a bill introduced by Mr. Eckart, which I am cosponsoring, which would repeal certain amendments to the Federal/State extended benefits unemployment compensation program enacted in the infamous Omnibus Reconciliation Act of 1981.

As you know, passage of this legislation would restore the national trigger for extended benefits; reestablish the currently effective required State insured unemployment rate for purposes of triggering-on extended benefits; and permit extended benefit claimants to be included in determining the insured unemployment rate under the extended benefit program.

Mr. Chairman, the State of Washington has the fourth highest unemployment rate in the entire Nation. The latest available statistics place our unemployment rate at 13.4 percent, which means that over 250,000 Washingtonians are out of work. Because of the high concentration of forest products and related industries, in some counties of the State unemployment is as high as 33 percent. And unless there is some sudden and unexpected upturn in the national economy, this picture is likely to get a great deal worse before it improves.

The currently effective extended benefit trigger rate in Washington State is 7.14 percent. Because of the amendments enacted in the Reconciliation Act last year, this State insured unemployment rate is calculated by dividing the total number of individuals receiving State unemployment compensation benefits by the total number of people covered under the State unemployment compensation law.

If H.R. 5284 is enacted, the previous practice of including both individuals collecting State benefits and those collecting extended benefits when calculating the numerator would be restored. For my State, this would place the insured rate at 7.97 percent. Although this is still a far cry from the actual unemployment rate of 13.4 percent, it is a much more accurate reflection of the number of individuals eligible for State and Federal assistance while they attempt to reenter the work force.

Mr. Chairman, I believe you can see by the statistics that my State will not be directly affected by any of the changes we are advocating at this time. Unemployment in Washington is at such a high level that neither the elimination of the national trigger, the increase in the State trigger, or the elimination of recipients of extended benefits from the calculation formula will cause us to go "off" extended benefits immediately.

However, this does not mean that we see no harm in the future—perhaps as early as 1983—if the changes are not initiated now, and this is the main reason I am before you today. And, if Washington State, with its economic picture, is in danger of losing its extended benefits, what of the other 46 States whose unemployment picture is not as bleak?

Washington State has passed legislation which would require that, in order to be eligible for extended benefits, the State insured trigger would need to be 5 percent plus 120 percent of the previous 2 years' average insured rate. Application of this formula is expected to place the trigger at 7.5 percent by early next year. This would mean that, if H.R. 5284 is not passed, Washington State will no longer be eligible for extended benefits. From a possible 52 weeks of available benefits, Washington's unemployed will only have access to 30 weeks of benefits. This is for a State with the fourth highest unemployment rate in the Nation.

I would like to put the rest of my statement in the record.

As of April 10 over 97,000 jobless individuals in Washington State filed claims for the regular 26-week compensation benefits. Additionally, over 13,000 filed claims for Federal/State extended benefits, and approximately 20,000 are expected to file for an additional 13 weeks which has just been approved by the State.

I would like to mention to the committee, particularly because of the questions Mr. Anthony has asked of previous witnesses, that in prior years I had the opportunity of serving as a legislative assistant to a Senator in the other body, and during early 1970 and 1971 we went through a period just like this where unemployment reached exceedingly high levels all over the country. During that period, as today, there were certain States in which unemployment remained far higher than the average for extended periods of time.

In those days Chairman Mills and Chairman Long agreed that we couldn't have an extended unemployment compensation pro-

gram of 13 or 26 additional weeks for everyone in the country, the economic circumstances would allow it. The congressional response to this crisis was called the Emergency Unemployment Compensation Act of 1970, passed on three different occasions. The legislation created a system for extended benefits only in those States with extremely high rates of unemployment.

I bring this up to show that there is some precedent for the type of legislation under discussion today. The Emergency Unemployment Compensation Act of 1970 was passed in response to a set of circumstances very similar to those we are experiencing today. Then, as now, the Northeastern States, New England States and some States in the Far West suffered much higher rates of unemployment than some of the so-called Sun Belt States where things never deteriorated as badly as they did in the more industrial States. I offer this bill as one possible model for your committee staff to consider.

But, just to summarize, Mr. Chairman, our State is in deep trouble, with no end in sight to the unemployment crisis. We see no light at the end of the tunnel. We have had a disaster in the forest products industry, and now we see the Boeing Co. losing orders domestically for new planes and unable to compete in certain circumstances abroad because of the export credits that are being provided by foreign competition, mainly Airbus. Unless there is a dramatic turnaround on interest rates, I think we will have a prolonged period of economic downturn in the Northwest.

Under these circumstances, bills such as H.R. 6085 and H.R. 5284 become desperately essential to the people who are going to lose their benefits. That is why, Mr. Chairman, I am very much impressed with your bill, H.R. 6085, and I think it is absolutely necessary for the country. I am doubly glad to be here with my colleague, Mr. Eckart, who has done yeoman work in preparing his bill which would provide relief to uncounted unemployed workers throughout the country. I greatly appreciate the opportunity to appear before this committee, Mr. Chairman, and thank you for your attention.

[The prepared statement follows:]

STATEMENT OF HON. NORMAN D. DICKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Thank you, Mr. Chairman. I appreciate this opportunity to testify in favor of H.R. 5284, a bill introduced by Mr. Eckart which I am co-sponsoring, which would repeal certain amendments to the Federal/State extended benefits unemployment compensation program enacted in the Omnibus Reconciliation Act of 1981. As you know, passage of this legislation would restore the National trigger for extended benefits; re-establish the currently effective required State insured unemployment rate for purposes of triggering-on extended benefits; and permit extended benefit claimants to be included in determining the insured unemployment rate under the extended benefit program.

Mr. Chairman, the State of Washington has the fourth highest unemployment rate in the entire Nation. The latest available statistics place our unemployment rate at 13.4 percent, which means that over 250,000 Washingtonians are out of work. Because of the high concentration of forest products and related industries, in some counties of the State unemployment is as high as 33 percent. And unless there is some sudden and unexpected upturn in the National economy, this picture is likely to get a great deal worse before it improves.

The currently effective extended benefit trigger rate in Washington State is 7.14 percent. Because of the amendments enacted in the Reconciliation Act last year,

this State insured unemployment rate is calculated by dividing the total number of individuals receiving State unemployment compensation benefits by the total number of people covered under the State unemployment compensation law. If H.R. 5284 is enacted, the previous practice of including both individuals collecting State benefits and those collecting extended benefits when calculating the numerator would be restored. For my State, this would place the insured rate at 7.97 percent. Although this is still a far cry from the actual unemployment figure of 13.4 percent, it is a much more accurate reflection of the number of individuals eligible for State and Federal assistance while they attempt to re-enter the workforce.

Mr. Chairman, I believe you can see by the statistics that my State will not be directly affected by any of the changes we are advocating at this time. Unemployment in Washington is at such a high level that neither the elimination of the National trigger, the increase in the State trigger, or the elimination of recipients of extended benefits from the calculation formula will cause us to go "off" extended benefits immediately. However, this does not mean that we see no harm in the future—perhaps as early as 1983—if the changes are not initiated now, and this is the main reason I am before you today. And, if Washington State, with its economic picture, is in danger of losing its extended benefits, what of the other 46 States whose unemployment picture is not as bleak?

Washington State has passed legislation which would require that, in order to be eligible for extended benefits, the State insured trigger would need to be 5 percent plus 120 percent of the previous 2 years' average insured rate. Application of this formula is expected to place the trigger at 7.5 percent by early next year. This would mean that, if H.R. 5284 is not passed, Washingtion State will no longer be eligible for extended benefits. From a possible 52 weeks of available benefits, Washington's unemployed will only have access to 30 weeks of benefits. This is for a State with the fourth highest unemployment rate in the Nation.

As of April 10th, over 97,000 jobless individuals in Washington State filed claims for the regular, 26-week compensation benefits. Additionally, over 13,000 filed claims for Federal/State extended benefits, and approximately 20,000 are expected to file for an additional 13 weeks which has just been approved by the State. This State financed period is expected to stabilize at 8,000–10,000 claims weekly. Washington State has been eligible for extended benefits since July of 1980 because of constantly high unemployment rates. To suddenly lose eligibility for these funds, not because the State employment picture has improved, but because the eligibility limits have placed essential benefits out of the reach of even the neediest of States, cannot possibly reflect Congressional intent in authorizing extended benefits.

Mr. Chairman, enactment of any one of the three changes included in H.R. 5284 would probably be sufficient to keep my State "on" extended benefits. If the National trigger is reinstated at 4.5 percent Washington will be eligible for benefits regardless of the method for calculating the rate. If the State trigger is lowered, again, the State should remain eligible for extended benefits. Or, if the formula is amended to again include recipients of extended benefits, it will provide a better reflection of the employment situation within the State so that Washington will not find itself in the incongruous situation of having one of the highest unemployment rates in the country and still only providing 30 weeks of unemployment compensation benefits to its citizens. Because I believe it is in the best interests of the jobless individuals everywhere, I strongly urge that all three changes included in H.R. 5284 be approved, and that the bill be enacted in its current form.

Mr. Chairman, while I'm here, I would also like to add my strong support to H.R. 6085, a bill which would provide up to a maximum of 13 additional weeks of Federal supplemental benefits to individuals who have exhausted their State and extended benefits. Although Washington has provided a State-financed 13 week extention, it represents a tremendous strain on the State's already overextended resources. Providing Federal support for this extention should be a Federal responsibility, and I add my strong endorsement to H.R. 6085.

Mr. Chairman, the legislation before this subcommittee today provides the opportunity for Congress to help relieve the suffering of over 10 million unemployed workers of this Nation—notwithstanding opposition from those who would favor only the rich in this country. Support for compassionate legislation like H.R. 5284 and H.R. 6085 can go far in assisting the unemployed weather this period of economic recession until they can again become independent, self-sufficient members of our society. Compassionate legislation for the workers of this Nation has long been a hallmark of the Democratic Party, and has been supported many times on both sides of the aisle. The legislation under consideration today is worthy of this heritage, and I wholeheartedly urge its approval.

Thank you.

Senate Bills

1st Sub. S. B. 3783 By Senate Committee on Ways and Means

Authorizing the physical revaluation of property every six years if statistical adjustment are made.

(AS OF SENATE 2ND READING-3/20/82)

Permits the revenue department to authorize assessors to physically inspect and value property every 6 years if, during intervals between each physical inspection, the valuation is adjusted to its current and true value as determined by appropriate statistical data.

Requires adoption of rules specifying what constitutes appropriate data. Makes each assessor's statistical data open to public inspection.

Extends from May 31st to September 30th the time for including new construction on the county assessment rolls. Requires that the listing and valuation of new construction be completed by that date.

Provides that an appeal to the board of tax appeals by a taxpayer or a taxing unit concerning an action of the county board of equalization may not raise the property valuation to an amount greater than the larger of the county assessor's valuation or the county board's valuation.

--1982 REGULAR SESSION--

Mar 3 Majority; 1st substitute bill be substituted, do pass.
Passed to Rules committee for second reading.
Mar 11 Placed on second reading by Rules committee.
Referred to Rules 2.

--1982 1ST SPECIAL SESSION--

Mar 12 By resolution, reintroduced and retained in present status.
Mar 17 1st substitute bill substituted.
Held on second reading for Mar 18.
Mar 20 AMENDED.
Rules suspended.
Placed on third reading.
Third reading, passed; Yeas, 36; nays, 8; absent, 5.
-IN THE HOUSE-
Mar 21 First reading, referred to Revenue.

1st Sub. S. B. 4216 [redacted] By Senate Committee on Commerce and Labor

Modifying provisions relating to unemployment compensation.

(AS OF SENATE 2ND READING-3/20/82)

Removes restriction that the public members of the state advisory council on unemployment compensation not be entitled to unemployment compensation.

Redefines extended benefit period, "on" indicator, and "off" indicator.

Provides for additional benefit periods (as defined).

Directs the department of employment security to develop proposals for a permanent program of additional benefits.

Provides that additional benefits provided under this legislation are not payable for unemployment beginning after June 30, 1983, unless extended by law.

Requires that an individual, to be eligible for extended benefits, must have earned applicable base year wages of at least forty times the weekly benefit amount.

Provides for reduced benefits for an individual whose benefit year ends within an extended benefit period.

Prohibits denying an individual benefits because she/he is in approved training or left work which is not suitable employment to enter such training.

Authorizes the commissioner to (1) order further proceedings to be held before an appeal tribunal before issuing a decision; and (2) designate certain decisions as precedents.

Requires new claimants to disclose child support obligations. Requires a deduction from benefits to be paid to the appropriate child support enforcement agency. Applies only if the commissioner is to be reimbursed for administrative costs incurred.

Excludes from unemployment compensation provisions registered contractors and licensed electrical contractors meeting prescribed requirements who are performing services as subcontractors for registered contractors or licensed electrical contractors.

Provides that alcoholism is not a defense to disqualification of benefits due to misconduct. Disqualifies from receiving benefits a person who has been convicted of, or has admitted committing, a gross misdemeanor.

Authorizes unemployment benefits for eligible persons who have exhausted extended benefits on their most recent claim after July 1, 1980. Provides for payment in the same manner as for extended benefits.

Excludes from the unemployment compensation laws a licensed barber, hairdresser, or cosmetologist who compensates a shop owner for the use of shop facilities and who is not compensated by the shop owner for the services performed.

Declares an emergency as to certain sections which take effect immediately. Specifies September 26, 1982, as the effective date for remaining sections.

--1982 1ST SPECIAL SESSION--

Mar 19 Majority; 1st substitute bill be substituted, do pass.
Passed to Rules committee for second reading.
Mar 20 Placed on second reading by Rules committee.
1st substitute bill substituted. AMENDED.
Rules suspended.
Placed on third reading.
Third reading, passed; Yeas, 46; nays, 0; absent, 3.
-IN THE HOUSE-
Mar 21 First reading, referred to Labor and Economic Development.

1st Sub. S. B. 4285 By Senate Committee on Social and Health Services

Modifying provisions relating to social and health services.
(AS OF SENATE 2ND READING-3/17/82)
Reduces (1) the deductible for medically indigent recipients of medical care under the limited casualty program from $1500 to $500; and (2) the inflation adjustment for nursing home cost center reimbursement for fiscal year 1982 from 3.25% to 1.625%.
Prohibits a nursing home from billing the department for services provided to a recipient until an award letter of eligibility has been received. Authorizes billing and reimbursement for medical care recipients referred by the department prior to receipt of an award letter or the denial of eligibility.
Removes exclusion of chiropractic services from the services provided for recipients of medical assistance or medical care services.
Declares an emergency and takes effect April 1, 1982.

--1982 REGULAR SESSION--

Mar 5 Majority; 1st substitute bill be substituted, do pass.
Passed to Rules committee for second reading.
Mar 11 Placed on second reading by Rules committee.
Referred to Rules 2.

--1982 1ST SPECIAL SESSION--

Mar 12 By resolution, reintroduced and retained in present status.
Mar 17 1st substitute bill substituted. AMENDED.
Rules suspended.
Placed on third reading.
Third reading, passed; Yeas, 41; nays, 1; absent, 7.
-IN THE HOUSE-
Mar 18 First reading, referred to Appropriations - Human Services.
Mar 21 Majority; do pass with amendment(s).
Passed to Rules committee for second reading.

1st Sub. S. B. 4369 By Senate Committee on Ways and Means

Modifying appropriations for the 1981--83 fiscal biennium.
(AS OF SENATE 2ND READING-3/20/82)
Modifies appropriations and expenditures for the operations and capital projects of state agencies for the 1981-83 fiscal biennium.
Declares an emergency and takes effect immediately.

--1982 1ST SPECIAL SESSION--

Mar 20 Majority; 1st substitute bill be substituted, do pass.
Passed to Rules committee for second reading.
Placed on second reading by Rules committee.
1st substitute bill substituted. AMENDED.
Rules suspended.
Placed on third reading.
Third reading, passed; Yeas, 25; nays, 23; absent, 1.
-IN THE HOUSE-
First reading, referred to Ways and Means.
Mar 21 Majority; do pass with amendment(s).
Passed to Rules committee for second reading.

1st Sub. S. B. 4536 By Senate Committee on State Government

Modifying provisions on credit transactions.
(DIGEST OF PROPOSED 1ST SUBSTITUTE)
Limits the legal interest rate chargeable on the outstanding unpaid balance under a retail installment contract to the highest of (1) 12% per annum; (2) 1% above the discount rate for 90-day commercial paper in effect in the Federal Reserve Bank in San Francisco; or (3) $10.
Limits the legal interest rate chargeable on the outstanding unpaid balance under a retail charge agreement, revolving charge agreement, or charge agreement to the highest of (1) 1% per month; (2) 1/12 of 1% above the discount rate for 90-day commercial paper in effect in the Federal Reserve Bank in San Francisco; or (3) $1 per month.
Makes credit cards issued by financial institutions subject to laws regulating retail installment transactions (chapter 63.14 RCW). Limits to $12 the fee which may be charged annually for card owrership.
Provides that a buyer's obligation

IN THE LEGISLATURE
of the
STATE OF WASHINGTON

CERTIFICATION OF ENROLLED ENACTMENT

SUBSTITUTE SENATE BILL NO. 4216

CHAPTER NO. 18
Laws of 1982

First Extraordinary Session
47th Legislature

Effective Date: April 2, 1982
Except Section 4 which is
effective September 26, 1982

Passed the Senate March 20, 19 82
Yeas 46 *Nays* 0

Passed the House April 1, 19 82
as amended
Yeas 97 *Nays* 1

4/1/82 - The Senate concurred in the House amendments and passed the bill as amended.

Yeas 47 Nays 0

CERTIFICATE

I, Sidney R. Snyder, Secretary of the Senate of the State of Washington do hereby certify that the attached is enrolled Substitute Senate Bill No. 4216 *as passed by the Senate and the House of Representatives on the dates hereon set forth.*

Secretary of the Senate

ENGROSSED SUBSTITUTE SENATE BILL NO. 4216

AS AMENDED BY THE HOUSE

State of Washington
1982 First Special Session
47th Legislature

By Committee on Commerce and Labor
(Originally sponsored by Senator Quigg)

Filed by Committee March 19, 1982, and ordered printed.

AN ACT Relating to unemployment compensation; amending section 11, chapter 35, Laws of 1945 and RCW 50.04.110; amending section 59, chapter 35, Laws of 1945 as last amended by section 149, chapter 54, Laws of 1975-'76 2nd ex. sess. and RCW 50.12.200; amending section 73, chapter 35, Laws of 1945 as last amended by section 4, chapter 35, Laws of 1977 and RCW 50.20.050; amending section 74, chapter 35, Laws of 1945 as last amended by section 5, chapter 35, Laws of 1977 ex. sess. and RCW 50.20.060; amending section 2, chapter 1, Laws of 1971 as last amended by section 7, chapter 35, Laws of 1977 and RCW 50.22.010; amending section 4, chapter 1, Laws of 1971 as amended by section 9, chapter 35, Laws of 1977 and RCW 50.22.130; amending section 5, chapter 1, Laws of 1971 and RCW 50.22.150; amending section 7, chapter 1, Laws of 1971 and RCW 50.22.060; amending section 111, chapter 35, Laws of 1945 as last amended by section 11, chapter 190, Laws of 1979 ex. sess. and RCW 50.24.130; amending section 124, chapter 35, Laws of 1945 and RCW 50.32.080; amending and reenacting section 183, chapter 35, Laws of 1945 as amended by section 7, chapter ...(ESSB 4418), Laws of 1982 and RCW 50.40.020; reenacting section 3, chapter ... (ESSB 4418), Laws of 1982 and RCW 50.40....; amending and reenacting section 9, chapter 164, Laws of 1971 ex. sess. as last amended by section 21, chapter ... (ESSB 4418), Laws of 1982 and RCW 74.20A.090; adding new sections to chapter 50.06 RCW; adding a new section to chapter 50.20 RCW; adding new sections to chapter 51.32 RCW; adding a new section to chapter 50.32 RCW; creating a new section; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Section 1. Section 59, chapter 35, Laws of 1945 as last amended by section 147, chapter 54, Laws of 1979 1st ex. sess. and RCW 50.12.200 are each amended to read as follows:

The commissioner shall appoint a state advisory council composed of not more than nine ((members)) men and women, of which there shall be representatives of employers, there shall be representatives of employees, and there shall be representatives of the general public ((who are not employed by or employers under this title)). Such council shall aid the commissioner in formulating policies and discussing problems related to the administration of this title and of assuring impartiality and freedom from political influence in the solution of such problems. The council shall serve without compensation. The commissioner may also appoint committees, and industrial or other special councils, to perform appropriate services. Advisory council members shall be reimbursed for travel expenses incurred in accordance with RCW 43.03.050 and 43.03.060 as now existing or hereafter amended.

Sec. 2. Section 3, chapter 1, Laws of 1971 as last amended by section 7, chapter 35, Laws of 1981 and RCW 50.22.010 are each amended to read as follows:

As used in this chapter, unless the context clearly indicates otherwise:

(1) "Extended benefit period" means a period which:

(a) Begins with the third week after ((whichever of the following weeks occurs first:

((i) A week for which there is a national "on" indicator; or

(ii) A week for which there is a state "on" indicator; and)) a week for which there is an "on" indicator; and

(b) Ends with the third week after the first week for which there is ((both a national "on" indicator and a state "on" indicator)) an "off" indicator: PROVIDED, That no extended benefit period shall last for a period of less than thirteen consecutive weeks.

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and further that no extended benefit period may begin by reason of ((a--state)) an "on" indicator before the fourteenth week after the close of a prior extended benefit period which was in effect with respect to this state.

(((2)--There-is-a-"national-on"-indicator"-for-a-week-if-the--United--States--secretary--of-labor-determines-that-for-the period-consisting-of-such-week-and-the-twelve-weeks--immediately preceding--it,--the--rate--of--insured--unemployment-(seasonally adjusted)-for-all-states-equaled--or--exceeded--four--and--five-tenths--percent--(determined-by-reference-to-the-average-monthly covered-employment-for-the-first-four-of--the--most--recent--six calendar-quarters-ending-before-the-close-of-the-period);

(3)---There-is-a-"national-off"-indicator"-for-a-week-if the-United-States-secretary-of-labor--determines--that--for--the period--consisting--of--such--week-and-the-immediately-preceding twelve-weeks,--the--rate--of--insured--unemployment--(seasonally adjusted)--for--all--states--was--less-than-four-and-five-tenths percent-(determined-by-reference-to-the-average-monthly--covered employment--for--the--first-four-of-the-most-recent-six-calendar quarters-ending-before-the-close-of-the-period);

(4))) (2) There is ((a-"state-on"-indicator")) an "on" indicator for this state for a week if the commissioner determines, in accordance with the regulations of the United States secretary of labor, that for the period consisting of such week and the immediately preceding twelve weeks, the rate of insured unemployment (not seasonally adjusted) ((either-

(a))) equaled or exceeded one hundred twenty percent of the average of such rates for the corresponding thirteen-week period ending in each of the preceding two calendar years and equaled or exceeded ((four-percent-or

(b)--Equaled-or-exceeded)) five percent.

(((5))) (3) There is ((a--"state--off"--indicator")) an "off" indicator for this state for a week if the commissioner determines, in accordance with the regulations of the United States secretary of labor, that for the period consisting of such week and the immediately preceding twelve weeks, the rate

of insured unemployment (not seasonally adjusted) was either:

(a) Less than ((four)) five percent; or

(b) ((Four)) Five percent or more ((but less than five percent)) and the rate of insured unemployment was less than one hundred twenty percent of the average of the rates for the corresponding thirteen week period ending in each of the two preceding calendar years.

(((6))) (4) "Regular benefits" means benefits payable to an individual under this title or under any state law (including benefits payable to federal civilian employees and to ex-servicemen pursuant to 5 U.S.C. chapter 85) other than extended benefits or additional benefits.

(((7))) (5) "Extended benefits" means benefits payable for weeks of unemployment beginning in an extended benefit period to an individual under this title or under any state law (including benefits payable to federal civilian employees and to ex-servicemen pursuant to 5 U.S.C. chapter 85) other than regular or additional benefits.

(((8))) (6) "Additional benefits" are benefits totally financed by the state and payable under this title to exhaustees by reason of conditions of high unemployment or by reason of other special factors.

(((9))) (7) "Eligibility period" of an individual means the period consisting of the weeks in his or her benefit year which begin in an extended benefit period that is in effect in this state and, if his or her benefit year ends within such extended benefit period, any weeks thereafter which begin in such period.

(8) An "additional benefit period" means a period within an extended benefit period which:

(a) Begins with the third week after a week for which:

(i) The governor determines that adverse economic conditions and high unemployment among the state's workers necessitate payment of additional benefits; and

(ii) The commissioner determines that, for the fifty-two consecutive weeks ending with such week, the rate of insured

unemployment as calculated under (d) of this subsection equals or exceeds six and one-half percent: PROVIDED, That six percent shall apply if the fifty-two week rate of insured unemployment has been less than four and one-half percent at any time within the preceding one hundred four weeks.

(b) Ends with the third week after a week for which the commissioner determines that, for the fifty-two consecutive weeks ending with such week, the rate of insured unemployment as calculated under (d) of this subsection is less than six and one-half percent: PROVIDED, That six percent shall apply if the additional benefit period began because of the proviso in (a)(ii) of this subsection, the fifty-two week rate of insured unemployment has not exceeded six and one-half percent during the additional benefit period, and the additional benefit period has been in effect for fewer than thirty-six weeks.

(c) No additional benefit period may last for a period of less than thirteen weeks, and no additional benefit period may begin before the fourteenth week after the close of a prior additional benefit period.

(d) "Rate of insured unemployment," for the purposes of (a) and (b) of this subsection, means the percentage derived by dividing the average weekly number of individuals filing claims in this state for weeks of unemployment with respect to the most recent fifty-two consecutive-week period as determined by the commissioner on the basis of his reports to the United States Secretary of Labor by the average monthly employment covered under this title for the first four of the most recent six completed calendar quarters ending before the end of such fifty-two week period. The division shall be carried to the fourth decimal place with any remaining fraction disregarded.

(e) If a federally funded program of benefits is established which provides for benefits beyond thirty-nine weeks, any additional benefit period in effect shall terminate on the last day of the week preceding the effective week of the federal program. No additional benefit period may begin while such a federal program is in effect.

(2) "Additional benefit eligibility period" of an individual means the period consisting of the weeks in his or her benefit year which begin in an additional benefit period that is in effect and, if his or her benefit year ends within such additional benefit period, any weeks thereafter which begin in such period.

(17) "Exhaustee" means an individual who, with respect to any week of unemployment in his or her eligibility period:

(a) Has received, prior to such week, all of the regular benefits that were payable to him or her under this title or any other state law (including dependents' allowances and regular benefits payable to federal civilian employees and ex-servicemen under 5 U.S.C. chapter 85) in his or her current benefit year that includes such week; or

(b) Has received, prior to such week, all of the regular benefits that were available to him or her under this title or any other state law (including dependents' allowances and regular benefits available to federal civilian employees and ex-servicemen under 5 U.S.C. chapter 85) in his or her current benefit year that includes such week, after the cancellation of some or all of his or her wage credits or the total or partial reduction of his or her rights to regular benefits; PROVIDED, That, for the purposes of (a) and (b), an individual shall be deemed to have received in his or her current benefit year all of the regular benefits that were payable to him or her, or available to him or her, as the case may be, even though:

(i) As a result of a pending appeal with respect to wages or employment, or both, that were not included in the original monetary determination with respect to his or her current benefit year, he or she may subsequently be determined to be entitled to more regular benefits; or

(ii) By reason of the seasonal provisions of another state law, he or she is not entitled to regular benefits with respect to such week of unemployment (although he or she may be entitled to regular benefits with respect to future weeks of unemployment in the next season, as the case may be, in his or

her current benefit year), and he or she is otherwise an exhaustee within the meaning of this section with respect to his or her right to regular benefits under such state law seasonal provisions during the season or off season in which that week of unemployment occurs; or

(iii) Having established a benefit year, no regular benefits are payable to him or her during such year because his or her wage credits were canceled or his or her right to regular benefits was totally reduced as the result of the application of a disqualification; or

(c) His or her benefit year having ended prior to such week, he or she has insufficient wages or employment, or both, on the basis of which he or she could establish in any state a new benefit year that would include such week, or having established a new benefit year that includes such week, he or she is precluded from receiving regular benefits by reason of the provision in RCW 50.14.050 which meets the requirement of section 3304(a)(7) of the Federal Unemployment Tax Act, or the similar provision in any other state law; and

(4) (i) has no right for such week to unemployment benefits or allowances, as the case may be, under the Railroad Unemployment Insurance Act, the Trade Expansion Act of 1962, and such other federal laws as are specified in regulations issued by the United States secretary of labor; and

(ii) Has not received and is not seeking for such week unemployment benefits under the unemployment compensation law of Canada, unless the appropriate agency finally determines that he or she is not entitled to unemployment benefits under such law for such week.

(11) "State law" means the unemployment insurance law of any state, approved by the United States secretary of labor under section 3304 of the internal revenue code of 1954.

Sec. 3. Section 7, chapter 1, Laws of 1971 and RCW 50.22.040 are each amended to read as follows:

(1) Whenever an extended benefit period is to become

effective in this state (or in all states) as a result of ((a ~~state--or--nationat~~)) an "on" indicator, or an extended benefit period is to be terminated in this state as a result of ((~~state and--nationat~~)) an "off" indicator((~~a-or-both-as-a-result-of-a state--"off"--indicator--prior--to--January---1,---1982~~)), the commissioner shall make an appropriate public announcement.

(2) Computations required by the provisions of RCW 50.22.010((~~6~~))(4) shall be made by the commissioner, in accordance with regulations prescribed by the United States secretary of labor.

Sec. 4. Section 4, chapter 1, Laws of 1971 as amended by section 2, chapter 35, Laws of 1981 and RCW 50.22.050 are each amended to read as follows:

(1) An individual shall be eligible to receive extended benefits with respect to any week of unemployment in his or her eligibility period only if the commissioner finds with respect to such week that:

(a) The individual is an "exhaustee" as defined in RCW 50.22.010((~~5~~))(~~a~~))(~~and~~));

(b) He or she has satisfied the requirements of this title for the receipt of regular benefits that are applicable to individuals claiming extended benefits, including not being subject to a disqualification for the receipt of benefits; and

(c) He or she has earned wages in the applicable base year of at least forty times his or her weekly benefit amount.

(2) An individual filing an interstate claim in any state under the interstate benefit payment plan shall not be eligible to receive extended benefits for any week beyond the first two weeks claimed for which extended benefits are payable unless an extended benefit period embracing such week is also in effect in the agent state.

Sec. 5. Section 6, chapter 1, Laws of 1971 and RCW 50.22.050 are each amended to read as follows:

(1) The total extended benefit amount payable to any eligible individual with respect to his applicable benefit year

shall be the least of the following amounts:

((~~(a)~~)) (a) Fifty percent of the total amount of regular benefits which were payable to him under this title in his applicable benefit year;

((~~(b)~~)) (b) Thirteen times his weekly benefit amount which was payable to him under this title for a week of total unemployment in the applicable benefit year; or

((~~(c)~~)) (c) Thirty-nine times his weekly benefit amount which was payable to him under this title for a week of total unemployment in the applicable benefit year, reduced by the total amount of regular benefits which were paid (or deemed paid) to him under this title with respect to the benefit year.

(2) Notwithstanding any other provision of this chapter, if the benefit year of any eligible individual ends within an extended benefit period, the extended benefits which the individual would otherwise be entitled to receive with respect to weeks of unemployment beginning after the end of the benefit year and within the extended benefit period shall be reduced (but not below zero) by the product of the number of weeks for which the individual received any amount as a trade readjustment allowance within that benefit year, multiplied by the individual's weekly extended benefit amount.

Sec. 6. Section 73, chapter 35, Laws of 1945 as last amended by section 4, chapter 35, Laws of 1971 and RCW 50.20.050 are each amended to read as follows:

(1) An individual shall be disqualified from benefits beginning with the first day of the calendar week in which he or she has left work voluntarily without good cause and thereafter until he or she has obtained bona fide work and earned wages of not less than his or her suspended weekly benefit amount in each of five calendar weeks.

The disqualification shall continue if the work obtained is a mere sham to qualify for benefits and is not bona fide work. In determining whether work is of a bona fide nature, the commissioner shall consider factors including but not limited to

the following:

(a) The duration of the work;

(b) The extent of direction and control by the employer over the work; and

(c) The level of skill required for the work in light of the individual's training and experience.

(2) An individual shall not be considered to have left work voluntarily without good cause when:

(a) He or she has left work to accept a bona fide offer of bona fide work as described in subsection (1) of this section; or

(b) The separation was because of the illness or disability of the claimant or the death, illness, or disability of a member of the claimant's immediate family if the claimant took all reasonable precautions, in accordance with any regulations that the commissioner may prescribe, to protect his or her employment status by having promptly notified the employer of the reason for the absence and by having promptly requested reemployment when again able to assume employment: PROVIDED, That these precautions need not have been taken when they would have been a futile act, including those instances when the futility of the act was a result of a recognized labor/management dispatch system.

(3) In determining under this section whether an individual has left work voluntarily without good cause, the commissioner shall only consider work-connected factors such as the degree of risk involved to the individual's health, safety, and morals, the individual's physical fitness for the work, the individual's ability to perform the work, and such other work connected factors as the commissioner may deem pertinent, including state and national emergencies. Good cause shall not be established for voluntarily leaving work because of its distance from an individual's residence where the distance was known to the individual at the time he or she accepted the employment and where, in the judgment of the department, the distance is customarily traveled by workers in the individual's

job classification and labor market, nor because of any other significant work factor which was generally known and present at the time he or she accepted employment, unless the related circumstances have so changed as to amount to a substantial involuntary deterioration of the work factor or unless the commissioner determines that other related circumstances would work an unreasonable hardship on the individual were he or she required to continue in the employment.

(4) Subsections (1) and (3) of this section shall not apply to an individual whose marital status or domestic responsibilities cause him or her to leave employment. Such an individual shall not be eligible for unemployment insurance benefits until he or she has requalified, either by obtaining bona fide work and earning wages of not less than the suspended weekly benefit amount in each of five calendar weeks or by reporting in person to the department during ten different calendar weeks and certifying on each occasion that he or she is ready, able, and willing to immediately accept any suitable work which may be offered, is actively seeking work pursuant to customary trade practices, and is utilizing such employment counseling and placement services as are available through the department.

NEW SECTION. Sec. 7. There is added to chapter 50.20 RCW a new section to read as follows:

(1) Notwithstanding any other provision of this chapter, an otherwise eligible individual shall not be denied benefits for any week because he or she is in training approved under section 236(a)(1) of the Trade Act of 1974, P.L. 93-618, nor may that individual be denied benefits for any such week by reason of leaving work which is not suitable employment to enter such training, or for failure to meet any requirement of federal or state law for any such week which relates to the individual's availability for work, active search for work, or refusal to accept work.

(2) For the purposes of this section, "suitable

employment" means, with respect to an individual, work of a substantially equal or higher skill level than the individual's past adversely affected employment (as described for the purposes of the Trade Act of 1974, P.L. 93-618), if the wages for such work are not less than eighty percent of the individual's average weekly wage as determined for the purposes of the Trade Act of 1974, P.L. 93-618.

Sec. 8. Section 124, chapter 55, Laws of 1945 and RCW 50.32.040 are each amended to read as follows:

After having acquired jurisdiction for review, the commissioner shall review the proceedings in question. Prior to rendering his decision, the commissioner may order the taking of additional evidence by an appeal tribunal to be made a part of the record in the case. Upon the basis of evidence submitted to the appeal tribunal and such additional evidence as the commissioner may order to be taken, the commissioner shall render his decision in writing affirming, modifying, or setting aside the decision of the appeal tribunal ((and)). Alternatively, the commissioner may order further proceedings to be held before the appeal tribunal, upon completion of which the appeal tribunal shall issue a decision in writing affirming, modifying, or setting aside its previous decision. The new decision may be appealed under RCW 50.32.071. The commissioner shall mail his decision to the interested parties at their last known addresses.

NEW SECTION. Sec. 9. There is added to chapter 50.32 RCW a new section to read as follows:

The commissioner may designate certain commissioner's decisions as precedents. The commissioner's decisions designated as precedents shall be published and made available to the public by the department.

Sec. 10. Section 186, chapter 55, Laws of 1945 as amended by section 7, chapter ... (ESSB 4415), Laws of 1982 and RCW 50.40.020 are each amended and reenacted to read as follows:

Any assignment, pledge, or encumbrance of any right to benefits which are or may become due or payable under this title shall be void. Such rights to benefits shall be exempt from levy, execution, attachment, or any other remedy whatsoever provided for the collection of debts, except as provided in ((~~section 9 of this 1983 act~~)) RCW 50.40.... (section 9, chapter ... (ESSB 4418), Laws of 1982). Benefits received by any individual, so long as they are not commingled with other funds of the recipient, shall be exempt from any remedy whatsoever for collection of all debts except debts incurred for necessaries furnished such individual or his spouse or dependents during the time when such individual was unemployed. Any waiver of any exemption provided for in this section shall be void.

Sec. 11. Section 9, chapter ... (ESSH 4418), Laws of 1982 and RCW 50.40... are each reenacted to read as follows:

(1) An individual filing a new claim for unemployment compensation shall, at the time of filing the claim, disclose whether or not the individual owes child support obligations as defined under subsection (7) of this section. If the individual discloses that he or she owes child support obligations and is determined to be eligible for unemployment compensation, the commissioner shall notify the state or local child support enforcement agency enforcing those obligations that the individual has been determined to be eligible for unemployment compensation.

(2) The commissioner shall deduct and withhold from any unemployment compensation payable to an individual who owes child support obligations as defined under subsection (7) of this section:

(a) The amount specified by the individual to the commissioner to be deducted and withheld under this subsection, if neither (b) nor (c) of this subsection is applicable;

(b) The amount (if any) determined pursuant to an agreement submitted to the commissioner under section 454(20)(B)(i) of the Social Security Act by the state or local

child support enforcement agency, unless (c) of this subsection is applicable; or

(c) Any amount otherwise required to be so deducted and withheld from such unemployment compensation pursuant to legal process, as that term is defined in section 462(e) of the Social Security Act, properly served upon the commissioner.

(3) Any amount deducted and withheld under subsection (2) of this section shall be paid by the commissioner to the appropriate state or local child support enforcement agency.

(4) Any amount deducted and withheld under subsection (2) of this section shall be treated for all purposes as if it were paid to the individual as unemployment compensation and paid by that individual to the state or local child support enforcement agency in satisfaction of the individual's child support obligations.

(5) For the purposes of this section, "unemployment compensation" means any compensation payable under this chapter including amounts payable by the commissioner under an agreement under any federal law providing for compensation, assistance, or allowances with respect to unemployment.

(6) This section applies only if appropriate arrangements have been made for reimbursement by the state or local child support enforcement agency for the administrative costs incurred by the commissioner under this section which are attributable to child support obligations being enforced by the state or local child support enforcement agency.

(7) "Child support obligations" as used in this section means only those obligations which are being enforced pursuant to a plan described in section 454 of the Social Security Act which has been approved by the secretary of health and human services under part D of Title IV of the Social Security Act.

(8) "State or local child support enforcement agency" as used in this section means any agency of this state or a political subdivision thereof operating pursuant to a plan described in subsection (7) of this section.

Sec. 12. Section 2, chapter 164, Laws of 1971 ex. sess. as last amended by section 21, chapter ... (ESSB 4418), Laws of 1982 and RCW 74.20A.090 are each amended and reenacted to read as follows:

Whenever a support lien or order to withhold and deliver is served upon any person, firm, corporation, association, political subdivision, or department of the state asserting a support debt against earnings and there is in the possession of such person, firm, corporation, association, political subdivision, or department of the state, any such earnings, RCW 7.33.280 shall not apply, but fifty percent of the disposable earnings shall be exempt and may be disbursed to the debtor whether such earnings are paid, or to be paid weekly, monthly, or at other intervals and whether there be due the debtor earnings for one week or for a longer period. The lien or order to withhold and deliver shall continue to operate and require said person, firm, corporation, association, political subdivision, or department of the state to withhold the nonexempt portion of earnings at each succeeding earnings disbursement interval until the entire amount of the support debt stated in the lien or order to withhold and deliver has been withheld. As used in this chapter, the term "earnings" means compensation paid or payable for personal services, whether denominated as wages, salary, commission, bonus, or otherwise, and, notwithstanding any other provision of law making such payments exempt from garnishment, attachment, or other process to satisfy support obligation, specifically includes periodic payments pursuant to pension or retirement programs, or insurance policies of any type, but does not include payments made under Title 50 RCW, except as provided in RCW 50.40.020 and 50.40.... (section 5, chapter ... (ESSB 4418), Laws of 1982) or Title 74 RCW. Earnings shall specifically include all gain derived from capital, from labor, or from both combined, not including profit gained through sale or conversion of capital assets. The term "disposable earnings" means that part of the earnings of any individual remaining after the

deduction from those earnings of any amount required by law to be withheld.

NEW SECTION. Sec. 13. There is added to chapter 50.04 RCW a new section to read as follows:

The term "employment" shall not include services rendered by any person, firm, or corporation currently engaging in a business which is registered under chapter 18.27 RCW or licensed under chapter 19.28 RCW when:

(1) Contracting to perform work for any contractor registered under chapter 18.27 RCW or licensed under chapter 19.28 RCW;

(2) There is no other person, firm or corporation doing the same work at the same time on the same project except two or more persons, firms or corporations any contract and do the same work at the same time on the same project if each person, firm or corporation has employees;

(3) The person, firm, or corporation has a principal place of business which would be eligible for a business deduction for internal revenue service tax purposes other than that furnished by the contractor for which the business has contracted to furnish services;

(4) The person, firm, or corporation maintains a separate set of books or records that reflect all items of income and expenses of the business; and

(5) The work which the person, firm, or corporation has contracted to perform is:

(a) The work of a contractor as defined in RCW 18.27.010; or

(b) The work of installing wires or equipment to convey electric current or installing apparatus to be operated by such current as it pertains to the electrical industry as described in chapter 19.28 RCW.

Sec. 14. Section 11, chapter 35, Laws of 1945 and RCW 50.04.100 are each amended to read as follows:

"Employment", subject only to the other provisions of

this title, means personal service, of whatever nature, unlimited by the relationship of master and servant as known to the common law or any other legal relationship, including service in interstate commerce, performed for wages or under any contract calling for the performance of personal services, written or oral, express or implied.

Except as provided by section 17 of this 1982 act, personal services performed for an employing unit by one or more contractors or subcontractors acting individually or as a partnership, which do not meet the provisions of RCW 50.04.140, shall be considered employment of the employing unit: PROVIDED, HOWEVER, That such contractor or subcontractor shall be an employer under the provisions of this title in respect to personal services performed by individuals for such contractor or subcontractor.

Sec. 15. Section 101, chapter 55, Laws of 1945 as last amended by section 11, chapter 190, Laws of 1979 ex. sess. and RCW 50.24.140 are each amended to read as follows:

No employing unit which contracts with or has under it any contractor or subcontractor who is an employer under the provisions of this title shall make any payment or advance to, or secure any credit for, such contractor or subcontractor or on account of any contract or contracts to which said employing unit is a party unless such contractor or subcontractor has paid contributions, due or to become due for wages paid or to be paid by such contractor or subcontractor for personal services performed pursuant to such contract or subcontract, or has furnished a good and sufficient bond acceptable to the commissioner for payment of contributions, interest, and penalties. Failure to comply with the provisions of this section shall render said employing unit directly liable for such contributions, interest, and penalties and the commissioner shall have all of the remedies of collection against said employing unit under the provisions of this title as though the services in question were performed directly for said employing

unit.

For the purposes of this section, a contractor registered under chapter 18.27 RCW or licensed under chapter 19.28 RCW shall not be responsible for any contributions for the work of any subcontractor if:

(1) The subcontractor is currently engaging in a business which is registered under chapter 18.27 RCW or licensed under chapter 19.28 RCW;

(2) There is no other person, firm or corporation doing the same work at the same time on the same project except two or more persons, firms or corporations may contract and do the same work at the same time on the same project if each person, firm or corporation has employees;

(3) The subcontractor has a principal place of business which would be eligible for a business deduction for internal revenue service tax purposes other than that furnished by the contractor for which the business has contracted to furnish services;

(4) The subcontractor maintains a separate set of books or records that reflect all items of income and expenses of the business; and

(5) The subcontractor has contracted to perform:

(a) The work of a contractor as defined in RCW 18.27.010; or

(b) The work of installing wires or equipment to convey electric current or installing apparatus to be operated by such current as it pertains to the electrical industry as described in chapter 19.28 RCW.

Sec. 16. Section 74, chapter 35, Laws of 1945 as last amended by section 5, chapter 23, Laws of 1977 ex. sess. and RCW 50.20.060 are each amended to read as follows:

(1) An individual shall be disqualified from benefits beginning with the first day of the calendar week in which he or she has been discharged or suspended for misconduct connected with his or her work and thereafter until he or she has obtained

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work and earned wages of not less than the suspended weekly benefit amount in each of five calendar weeks. Alcoholism shall not constitute a defense to disqualification from benefits due to misconduct.

(2) An individual who has been discharged because of a felony or a gross misdemeanor of which he or she has been convicted, or has admitted committing to a competent authority, and which is connected with his or her work shall be disqualified from receiving any benefits for which base year credits are earned in any employment prior to the discharge. Such disqualification begins with the first day of the calendar week in which he or she has been discharged, and all benefits paid during the period the individual was disqualified shall be recoverable, notwithstanding RCW 50.20.190, 50.24.020, or any other provision of this title.

NEW SECTION. Sec. 17. There is added to chapter 50.22 RCW a new section to read as follows:

(1) Additional benefits are payable to eligible persons who are "exhaustees" with respect to extended benefits. The term "exhaustee" is deemed to have the same meaning with respect to extended benefits as with respect to regular benefits.

(2) Additional benefit amounts shall be calculated pursuant to RCW 50.22.150(1) and (2).

(3) Eligibility for additional benefits shall be determined and benefits shall be paid under the same terms and conditions as for extended benefits.

NEW SECTION. Sec. 18. There is added to chapter 50.22 RCW a new section to read as follows:

(1) Notwithstanding RCW 50.22.110(3)(a), an additional benefit period is established for weeks of unemployment which begin on or after the third Sunday following the effective date of this section: PROVIDED, That this additional benefit period will be suspended during any week in which an extended benefit period is not in effect.

(2) Additional benefits are payable to otherwise

eligible persons who have exhausted extended benefits on their most recent claim after July 1, 1980.

(3) The department of employment security shall develop proposals for a permanent program of additional benefits. The proposals shall address alternatives in trigger mechanisms, benefit levels, eligibility requirements, and unemployment insurance financing.

NEW SECTION. Sec. 19. There is added to chapter 50.22 RCW a new section to read as follows:

Benefits under sections 16 and 17 of this act are not payable for weeks of unemployment beginning after February 28, 1985, unless extended by law.

NEW SECTION. Sec. 20. There is added to chapter 50.04 RCW a new section to read as follows:

The term "employment" does not include services performed in a barber shop licensed under chapter 18.15 RCW or a hairdressing or cosmetology shop licensed under chapter 18.16 RCW if:

(1) The use of the shop facilities by the individual performing the services is contingent upon compensation to the shop owner; and

(2) The individual performing the services receives no compensation or other consideration from the owner for the services performed.

NEW SECTION. Sec. 21. If any part of this act is found to be in conflict with federal requirements which are a prescribed condition to the allocation of federal funds to the state, the conflicting part of this act is hereby declared to be inoperative solely to the extent of the conflict and with respect to the agencies directly affected, and such finding or determination shall not affect the operation of the remainder of this act in its application to the agencies concerned. The rules under this act shall meet federal requirements which are a necessary condition to the receipt of federal funds by the

state.

NEW SECTION. Sec. 22. If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. 23. Sections 2, 9, 10, 11, 16, and 17 of this act are necessary for the immediate preservation of the public peace, health, and safety, the support of the state government and its existing public institutions, and shall take effect immediately. Section 4 of this act shall take effect on September 26, 1982.

Passed the Senate April 1, 1982.

John A. Cherberg
President of the Senate

Passed the House April 1, 1982.

Speaker of the House.

Approved April 2, 1982

Governor of the State of Washington

RECEIVED
APR - 2 1982
SECRETARY OF STATE

Reprinted 3/20/82

ENGROSSED SUBSTITUTE SENATE BILL NO. 4216

BY

Committee on Commerce and Labor (Originally sponsored by Senator Quigg)

BRIEF TITLE

Modifying provisions relating to unemployment compensation

SENATE RECORD—

3/19/82 Filed by Committee and ordered printed

On motion Substituted for Original Bill, placed on calendar

3/20/82 Read second time and

AMENDED
ORDERED ENGROSSED
ADVANCED TO THIRD
READING UNDER SUSPENSION
OF RULES

3/20/82 Read third time and

Passed Yeas 46, Nays 0
3/20/82 Title Agreed to
3/20/82 Sent to House

s/s SID SNYDER
Secretary of the Senate.

HOUSE RECORD—

3/20/82 Received from Senate
3/21/82 Read first time and referred to Committee on LABOR & ECONOMIC DEVELOPMENT
3/26/82 Reported back by Committee with the recommendation
MAJORITY do pass
MAJORITY do pass as amended (16)
MINORITY do not pass
That Substitute Senate Bill be substituted therefor and that Substitute Bill Do Pass
Passed to ~~second reading~~
Rules 2 MAR 29 1982

MAR 31 1982 Read second time and
Amended
Further consideration deferred.

APR 1 1982 Read third time and

PASSED AS AMENDED Yeas 97, Nays 1
APR 1 1982 Title Agreed to
APR 1 1982 Returned to Senate

Robert C. Hatfield
Chief Clerk

APR 1 1982

The Senate concurred in the House Amendments and PASSED AS AMENDED Yeas 47 Nays 0

Secretary

Received from the House

Enrolled

Signed, President of the Senate

Signed, Speaker of the House

Signed by the Governor

SENATE RECORD—

Returned to Senate and placed in Committee on Rules for third reading. Referred to

Reported back by Committee with the recommendation
MAJORITY do pass
MAJORITY do pass as amended
MINORITY do not pass
That Substitute Senate Bill be substituted therefor and that Substitute Bill Do Pass
Passed to second reading.

Read third time and

Yeas, Nays

[(c) This subsec. provided for the addition of para. (3) to 42 USCS § 1103(b), which para. was deleted by Act Aug. 7, 1974, P.L. 93-368, § 4(b), 88 Stat. 420.]

Sec. 205. Definitions. For purposes of this title—

(a) the terms "compensation", "regular compensation", "extended compensation", "base period", "benefit year", "State", "State agency", "State law", and "week" shall have the meanings assigned to them under section 205 of the Federal-State Extended Unemployment Compensation Act of 1970 [P.L. 91-373, § 205, note to this section];

(b) the term "period of eligibility" means, in the case of any individual, the weeks in his benefit year which began in an extended benefit period or an emergency benefit period and, if his benefit year ends within such extended benefit period, any weeks thereafter which begin in such extended benefit period or in such emergency benefit period; and

(c) the term "extended benefit period" shall have the meaning assigned to such term under section 203 of the Federal-State Extended Unemployment Compensation Act of 1970 [P.L. 91-373, § 203, note to this section].

For purposes of any State law which refers to an extension under Federal law of the duration of benefits under the Federal-State Extended Unemployment Compensation Act of 1970 [P.L. 91-373, note to this section], this title shall be treated as amendatory of such Act.

Sec. 206. Report by Secretary of Labor.

(a) The Secretary of Labor shall conduct a comprehensive study and review of the program established by the Emergency Unemployment Compensation Act of 1971 [P.L. 92-224, note to this section], with a view to submitting to the Congress the report required to be submitted under subsection (b). Such study and review shall be conducted with particular regard to (1) the benefit payments made under such program, (2) projections of benefit payments which will be payable under such program after the period covered by such report, (3) the desirability of continuing such program after the period prescribed in section 202(f), and (4) the funding of the benefits payable under such program and the funding of benefits thereunder if such program should be continued after the period prescribed in section 202(f).

(b) On or before May 1, 1972, the Secretary of Labor shall submit to the Congress a full and complete report on the study and review provided for in subsection (a). Such report shall cover the period ending March 31, 1972, and shall contain the recommendations of the Secretary of Labor with respect to such program, including but not limited to, the operation and funding of such program, and the desirability of extending such program after the period prescribed in section 202(f).

FEDERAL-STATE EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

Act Aug. 10, 1970, P.L. 91-373, Title II, §§ 201–207, 84 Stat. 708; Oct. 27, 1972; P.L. 92-599, Title V, § 501, 86 Stat. 1326; July 1, 1973, P.L. 93-53, § 5, 87 Stat. 137; Dec. 31, 1973, P.L. 93-233, § 20, 87 Stat. 974; Mar. 28, 1974, P.L. 93-256, § 2, 88 Stat. 53; June 30, 1974, P.L. 93-

329, § 2, 88 Stat. 288; Aug. 7, 1974, P.L. 93-368, § 3, 88 Stat. 420; Dec. 31, 1974, P.L. 93-572, §§ 106–108, 88 Stat. 1872; June 30, 1975, P.L. 94-45, Title I, Part A, § 102(b), 89 Stat. 238; Oct. 20, 1976, P.L. 94-566, Title I, § 116(d)(1), (2), Title II, § 212(a), Title III, § 311(a), (b), 90 Stat. 2672, 2677, 2678, provided:

Sec. 201. Short title. This title [this note] may be cited as the "Federal-State Extended Unemployment Compensation Act of 1970."

Sec. 202. Payment of extended compensation.

(a) State law requirements.

(1) For purposes of section 3304(a)(11) of the Internal Revenue Code of 1954, a State law shall provide that payment of extended compensation shall be made, for any week of unemployment which begins in the individual's eligibility period, to individuals who have exhausted all rights to regular compensation under the State law and who have no rights to regular compensation with respect to such week under such law or any other State unemployment compensation law or to compensation under any other Federal law and are not receiving compensation with respect to such week under the unemployment compensation law of Canada. For purposes of the preceding sentence, an individual shall have exhausted his rights to regular compensation under a State law (A) when no payments of regular compensation can be made under law because such individual has received all regular compensation available to him based on employment or wages during his base period, or (B) when his rights to such compensation have terminated by reason of the expiration of the benefit year with respect to which such rights existed.

(2) Except where inconsistent with the provisions of this title [this note], the terms and conditions of the State law which apply to claims for regular compensation and to the payment thereof shall apply to claims for extended compensation and to the payment thereof.

(b) Individuals' compensation accounts

(1) The State law shall provide that the State will establish, for each eligible individual who files an application therefor, an extended compensation account with respect to such individual's benefit year. The amount established in such account shall be not less than whichever of the following is the least:

(A) 50 per centum of the total amount of regular compensation (including dependents' allowances) payable to him during such benefit year under such law,

(B) thirteen times his average weekly benefit amount, or

(C) thirty-nine times his average weekly benefit amount, reduced by the regular compensation paid (or deemed paid) to him during such benefit year under such law;

except that the amount so determined shall (if the State law so provides) be reduced by the aggregate amount of additional compensation paid (or deemed paid) to him under such law for prior weeks of unemployment in such benefit year which did not begin in an extended benefit period.

(2) For purposes of paragraph (1), an individual's weekly benefit amount for a week is the amount of regular compensation (including dependents' allowances) under the State law payable to such individual for such week for total unemployment.

Sec. 203. Extended benefit period.

(a) Beginning and ending. For purposes of this title [this note], in the case of any State, an extended benefit period—

(1) shall begin with the third week after whichever of the following weeks first occurs:

(A) a week for which there is a national "on" indicator, or

(B) a week for which there is a State "on" indicator; and

(2) shall end with the third week after the first week for which there is both a national "off" indicator and a State "off" indicator.

(b)(1) Special rules. In the case of any State—

(A) no extended benefit period shall last for a period of less than thirteen consecutive weeks, and

(B) no extended benefit period may begin by reason of a State "on" indicator before the fourteenth week after the close of a prior extended benefit period with respect to such State.

(2) When a determination has been made that an extended benefit period is beginning or ending with respect to a State (or all the States), the Secretary shall cause notice of such determination to be published in the Federal Register.

(c) Eligibility period. For purposes of this title [this note], an individual's eligibility period under the State law shall consist of the weeks in his benefit year which begin in an extended benefit period and, if his benefit year ends within such extended benefit period, any weeks thereafter which begin in such extended benefit period.

(d) National "on" and "off" indicators. For purposes of this section—

(1) There is a national "on" indicator for a week if, for the period consisting of such week and the immediately preceding twelve weeks, the rate of insured unemployment (seasonally adjusted) for all States equaled or exceeded 4.5 per centum (determined by reference to the average monthly covered employment for the first four of the most recent six calendar quarters ending before the close of such period).

(2) There is a national "off" indicator for a week if, for the period consisting of such week and the immediately preceding twelve weeks, the rate of insured unemployment (seasonally adjusted) for all States was less than 4.5 per centum (determined by reference to the average monthly covered employment for the first four of the most recent six calendar quarters ending before the close of such period).

(e) State "on" and "off" indicators. For purposes of this section—

(1) There is a State "on" indicator for a week if the rate of insured unemployment under the State law for the period consisting of such week and the immediately preceding twelve weeks—

(A) equaled or exceeded 120 per centum of the average of such rates for the corresponding thirteen-week period ending in each of the preceding two calendar years, and

(B) equaled or exceeded 4 per centum.

(2) There is a State "off" indicator for a week if, for the period consisting of such week and the immediately preceding twelve weeks, either subparagraph (A) or subparagraph (B) of paragraph (1) is not satisfied.

Effective with respect to compensation for weeks of unemployment beginning after March 30, 1977 (or, if later, the date established pursuant to State law), the State may by law provide that the determination of whether there has been a State "on" or "off" indicator beginning or ending any extended benefit period shall be made under this subsection as if (i) paragraph (1) did not contain subparagraph (A) thereof, and (ii) the figure "4" contained in subparagraph (B) thereof were "5"; except that, notwithstanding any such provision of State law, any week for which there would otherwise be a State "on" indicator shall continue to be such a week and shall not be determined to be a week for which there is a State "off" indicator. For purposes of this subsection, the rate of insured unemployment for any thirteen-week period shall be determined by reference to the average monthly covered employment under the State law for the first four of the most recent six calendar quarters ending before the close of such period.

(f) Rate of insured unemployment; covered employment.

(1) For purposes of subsections (d) and (e), the term "rate of insured unemployment" means the percentage arrived at by dividing—

(A) the average weekly number of individuals filing claims for weeks of unemployment with respect to the specified period, as determined on the basis of the reports made by all State agencies (or, in the case of subsection (e), by the State agency) to the Secretary, by

(B) the average monthly covered employment for the specified period.

(2) Determinations under subsection (d) shall be made by the Secretary in accordance with regulations prescribed by him.

(3) Determinations under subsection (e) shall be made by the State agency in accordance with regulations prescribed by the Secretary.

Sec. 204. Payments to States.

(a) Amount Payable.

(1) There shall be paid to each State an amount equal to one-half of the sum of—

(A) the sharable extended compensation, and

(B) the sharable regular compensation,

paid to individuals under the State law.

(2) No payment shall be made to any State under this subsection in respect of compensation for which the State is entitled to reimbursement under the provisions of any Federal law other than this Act.

(3) In the case of compensation which is sharable extended compensation or sharable regular compensation by reason of the provision contained in the last sentence of section 203(d), the first paragraph of this subsection shall be applied as if the words "one-half of" read "100 per centum of" but only with respect to compensation that would not have been payable if the State law's provisions as to the State "on" and "off" indicators omitted the 120 percent factor as provided for by Public Law 93-368 [for full classification of this Act, consult USCS Tables volumes] and by section 106 of this Act [this note].

(4) The amount which, but for this paragraph, would be payable under this subsection to any State in respect of any compensation paid to an individual whose base period wages include wages for services to which section 3306(c)(7) of the Internal Revenue Code of 1954 applies shall be reduced by an amount which bears the same ratio to the amount which, but for this paragraph, would be payable under this subsection to such State in respect of such compensation as the amount of the base period wages attributable to such services bears to the total amount of the base period wages.

(b) Sharable extended compensation. For purposes of subsection (a)(1)(A), extended compensation paid to an individual for weeks of unemployment in such individual's eligibility period is sharable extended compensation to the extent that the aggregate extended compensation paid to such individual with respect to any benefit year does not exceed the smallest of the amounts referred to in subparagraphs (A), (B), and (C) of section 202(b)(1) [this note].

(c) Sharable regular compensation. For purposes of subsection (a)(1)(B), regular compensation paid to an individual for a week of unemployment is sharable regular compensation—

(1) if such week is in such individual's eligibility period (determined under section 203(c) [this note]), and

(2) to the extent that the sum of such compensation, plus the regular compensation paid (or deemed paid) to him with respect to prior weeks of unemployment in the benefit year, exceeds twenty-six times (and does not exceed thirty-nine times) the average weekly benefit amount (including allowances for dependents) for weeks of total unemployment payable to such individual under the State law in such benefit year.

(d) Payment on calendar month basis. There shall be paid to each State either in advance or by way of reimbursement, as may be determined by the Secretary, such sum as the Secretary estimates the State will be entitled to receive under this title [this note] for each calendar month, reduced or increased, as the case may be, by any sum by which the Secretary finds that his estimates for any prior calendar month were greater or less than the amounts which should have been paid to the State. Such estimates may be made upon the basis of such statistical, sampling, or other method as may be agreed upon by the Secretary and the State agency.

(e) **Certification.** The Secretary shall from time to time certify to the Secretary of the Treasury for payment to each State the sums payable to such State under this section. The Secretary of the Treasury, prior to audit or settlement by the General Accounting Office, shall make payment to the State in accordance with such certification, by transfers from the extended unemployment compensation account to the account of such State in the Unemployment Trust Fund.

Sec. 205. Definitions. For purposes of this title [this note]—

(1) The term "compensation" means cash benefits payable to individuals with respect to their unemployment.

(2) The term "regular compensation" means compensation payable to an individual under any State unemployment compensation law (including compensation payable pursuant to 5 U.S.C. chapter 85 [5 USCS § 8501 et seq.]), other than extended compensation and additional compensation.

(3) The term "extended compensation" means compensation (including additional compensation and compensation payable pursuant to 5 USC chapter 85 [5 USCS § 8501 et seq.]) payable for weeks of unemployment beginning in an extended benefit period to an individual under those provisions of the State law which satisfy the requirements of this title [this note] with respect to the payment of extended compensation.

(4) The term "additional compensation" means compensation payable to exhaustees by reason of conditions of high unemployment or by reason of other special factors.

(5) The term "benefit year" means the benefit year as defined in the applicable State law.

(6) The term "base period" means the base period as determined under applicable State law for the benefit year.

(7) The term "Secretary" means the Secretary of Labor of the United States.

(8) The term "State" includes the District of Columbia, the Commonwealth of Puerto Rico and the Virgin Islands.

(9) The term "State agency" means the agency of the State which administers its State law.

(10) The term "State law" means the unemployment compensation law of the State, approved by the Secretary under section 3304 of the Internal Revenue Code of 1954.

(11) The term "week" means a week as defined in the applicable State law.

Sec. 206. Approval of State laws. [Paragraph (11) of 26 USCS § 3304(a) added.]

Sec. 207. Effective dates.

(a) Except as provided in subsection (b)—

(1) in applying section 203 [this note], no extended benefit period may begin with a week beginning before January 1, 1972; and

(2) section 204 [this note] shall apply only with respect to weeks of unemployment beginning after December 31, 1971.

(b)(1) In the case of a State law approved under section 3304(a)(11) of the Internal Revenue Code of 1954, such State law may also provide that an extended benefit period may begin with a week established pursuant to such law which begins earlier than January 1, 1972, but not earlier than 60 days after the date of the enactment of this Act [enacted Aug. 10, 1970].

(2) For purposes of paragraph (1) with respect to weeks beginning before January 1, 1972, the extended benefit period for the State shall be determined under section 203(a) [this note] solely by reference to the State "on" indicator and the State "off" indicator.

(3) In the case of a State law containing a provision described in paragraph (1), section 204 [this note] shall also apply with respect to weeks of unemployment in extended benefit periods determined pursuant to paragraph (1).

(c) Section 3304(a)(11) of the Internal Revenue Code of 1954 (as added by section 206) shall not be a requirement for the State law of any State—

(1) in the case of any State the legislature of which does not meet in a regular session which closes during the calendar year 1971, with respect to any week of unemployment which begins prior to July 1, 1972; or

(2) in the case of any other State, with respect to any week of unemployment which begins prior to January 1, 1972.

Application and effective dates of amendments made to the Federal-State Extended Unemployment Compensation Act of 1970. Act Oct. 20, 1976, P.L. 94-566, Title I, Part I, § 116(f)(1), 90 Stat 2673, provided that the amendments made to the Federal-State Extended Unemployment Compensation Act of 1970 by P.L. 94-566, § 116(d)(1), (2) [amending §§ 202(a)(1), 205(8)] are effective on the later of Oct. 1, 1976, or the day after the day on which the Secretary of Labor approves under 26 USCS § 3304(a) an unemployment compensation law submitted to him by the Virgin Islands for approval.

Act Oct. 20, 1976, P.L. 94-566, Title II, § 212(b), 90 Stat. 2677, provided: "The amendment made by this section [adding § 204(a)(4)] shall apply with respect to compensation paid for weeks of unemployment beginning on or after January 1, 1979.".

Act Oct. 20, 1976, P.L. 94-566, Title III, § 311(c), 90 Stat. 2679, provided: "The amendment made by subsection (a) of this section [amending § 203(d)] shall apply to weeks beginning after December 31, 1976, and the amendments made by subsection (b) of this section [amending § 203(e)] shall apply to weeks beginning after March 30, 1977.".

Application of amendments made by § 2(a) of Act Nov. 12, 1977. Act Nov. 12, 1977, P.L. 95-171, § 2(b), 91 Stat. 1353, provided: "The amendments made by subsection (a) [amending subsec. (a)(6)(A) of this section] shall apply with respect to weeks of unemployment which begin after December 31, 1977.".

Commuting expenses. Act Oct. 7, 1978, P.L. 95-427, § 2, 92 Stat. 996, located at 26 USCS § 62 note, provided for the determination of the

applicability of this section to transportation expenses incurred after Dec. 31, 1976, and on or before Dec. 31, 1979, in traveling between a taxpayer's residence and place of work.

Application of amendments made by § 302(a), (c) of Act Apr. 12, 1977. Act Apr. 12, 1977, P.L. 95-19, Title III, § 302(d)(1), (3), 91 Stat. 45, provided:

"(1) The amendment made by subsection (a) [amending subsec. (a)(14)(A) of this section] shall take effect as if included in the amendment made by section 314 of the Unemployment Compensation Amendments of 1976 [see P.L. 94-566, § 314(b), note to this section].

"(3) The amendments made by subsection (c) [amending subsec. (a)(6)(A) of this section] shall take effect as if included in the amendments made by section 115(c) of the Unemployment Compensation Amendments of 1976 [see P.L. 94-566, § 115(d), note to this section].".

Application of amendments made by § 115 of Act Oct. 20, 1976. Act Oct. 20, 1976, P.L. 94-566, Title I, Part I, § 115(d), 90 Stat. 2671, as amended by Act Apr. 12, 1977, P.L. 95-19, Title III, § 301(a), 91 Stat. 43, effective Oct. 20, 1976, as provided by § 301(d) of Act Apr. 12, 1977, provided:

"(d) Effective date.

"(1) Except as provided in paragraph (2), the amendments made by this section [amending subsec. (a)(16)(A), adding subsec (f) to this section, amending 26 USCS § 3309 and prec. § 3301] shall apply with respect to certifications of States for 1978 and subsequent years; except that—

"(A) the amendments made by subsections (a) and (b) shall only apply with respect to services performed after December 31, 1977; and

"(B) the amendments made by subsection (c) shall only apply with respect to weeks of unemployment which begin after December 31, 1977.

"(2) In the case of any State the legislature of which does not meet in a regular session which closes during the calendar year 1977, the amendments made by subsection (c) shall only apply with respect to weeks of unemployment which begin after December 31, 1978 (or if earlier, the date provided by State law).".

Application and effective dates of amendments made by § 116 of Act Oct. 20, 1976. Act Oct. 20, 1976, P.L. 94-566, Title I, Part I, § 116(f), 90 Stat. 2673 provided:

"(f) Effective dates.

"(1) Subsections (a), (c), and (d). The amendments made by subsections (a), (c), and (d) [amending 29 USCS § 49d, 42 USCS § 1301, P.L. 91-373 and P.L. 93-572, notes to this section] shall take effect on the later of October 1, 1976, or the day after the day on which the Secretary of Labor approves under section 3304(a) of the

Internal Revenue Code of 1954 an unemployment compensation law submitted to him by the Virgin Islands for approval.

"*(2) Subsection (b).* The amendments made by subsection (b) [amending 26 USCS § 3306] shall apply with respect to remuneration paid after December 31 of the year in which the Secretary of Labor approves for the first time an unemployment compensation law submitted to him by the Virgin Islands for approval, for services performed after such December 31.

"*(3) Subsection (e).* The amendments made by subsection (e) [amending 5 USCS § 8501, 8503, 8504, 8521, 8522] shall apply with respect to benefit years beginning on or after the later of October 1, 1976, or the first day of the first week for which compensation becomes payable under an unemployment compensation law of the Virgin Islands which is approved by the Secretary of Labor under section 3304(a) of the Internal Revenue Code of 1954.".

Application of amendments made by § 506 of Act Oct. 20, 1976. Act Oct. 20, 1976, P.L. 94-566, Title V, § 506(c), 90 Stat. 2687, as amended by Act Apr. 12, 1977, P.L. 95-19, Title III, § 301(c), 91 Stat. 44, effective Oct. 20, 1976 as provided by § 301(d) of Act Apr. 12, 1977, provided:

"(c) Effective date.

"(1) Except as provided in paragraph (2), the amendments made by this section [amending subsec. (a)(6)(B) of this section and 26 USCS § 3309] shall apply with respect to certifications of States for 1978 and subsequent years, but only with respect to services performed after December 31, 1977.

"(2) In the case of any State the legislature of which does not meet in a regular session which closes during the calendar year 1977, the amendments made by this section shall apply with respect to the certification of such state for 1979 and subsequent years, but only with respect to services performed after December 31, 1978.".

National Commission on Unemployment Compensation. Act Oct. 20, 1976, P.L. 94-566, Title IV, § 411, 90 Stat. 2681; Apr. 12, 1977, P.L. 95-19, Title III, § 303, 91 Stat. 45; Oct. 10, 1979, P.L. 96-84, § 1(a), (b) (effective 10/1/79 and applicable with respect to services performed on or after 3/1/78, as provided by § 1(c) of such Act), § 2, § 3(a) (effective on 10/10/79, as provided by § 3(b) of such Act), 93 Stat. 653, provided:

"**(a) Establishment of Commission.** There is established a National Commission on Unemployment Compensation (hereinafter in this section referred to as the 'Commission') which shall consist of thirteen members who shall be appointed as follows:

"(1) Three members appointed by the President pro tempore of the Senate.

"(2) Three members appointed by the Speaker of the House of Representatives.

"(3) Seven members appointed by the President.

"In making appointments under the preceding sentence, the President pro tempore of the Senate, the Speaker of the House of Representa-

tives, and the President shall consult with each other to insure that there will be a balanced representation of interested parties on the Commission. The Commission shall consist of at least one representative of labor, industry, the Federal Government, State government, local government, and small business. The President shall designate one of the members to serve as Chairman of the Commission. Seven members shall constitute a quorum. Any vacancies in the Commission shall not affect its powers, but shall be filled in the same manner in which the original appointment was made.

"(b) Duties of the Commission. The Commission shall study and evaluate the present unemployment compensation programs in order to assess the long-range needs of the programs, to develop alternatives, and to recommend changes in the programs. Such study and evaluation shall include, without being limited to—

"(1) examination of the adequacy, and economic and administrative impacts, of the changes made by this Act in coverage, benefit provisions, and financing;

"(2) identification of appropriate purposes, objectives, and future directions for unemployment compensation programs; including railroad unemployment insurance;

"(3) examination of issues and alternatives concerning the relationship of unemployment compensation to the economy, with special attention to long-range funding requirements and desirable methods of program financing;

"(4) examination of eligibility requirements, disqualification provisions, and factors to consider in determining appropriate benefit amounts and duration;

"(5) examination of (A) the problems of claimant fraud and abuse in the unemployment compensation programs (B) the adequacy of present statutory requirements and administrative procedures designed to protect the programs against such fraud and abuse and (C) problems of claimants in obtaining prompt processing and payment of their claims for benefits and any appropriate measures to relieve such problems;

"(6) examination of the relationship between unemployment compensation programs and manpower training and employment programs;

"(7) examination of the appropriate role of unemployment compensation in income maintenance and its relationship to other social insurance and income maintenance programs;

"(8) conduct of such surveys, hearings, research, and other activities as it deems necessary to enable it to formulate appropriate recommendations, and to obtain relevant information, attitudes, opinions, and recommendations from individuals and organizations representing employers, employees, and the general public;

"(9) review of the present method of collecting and analyzing present and prospective national and local employment and unemployment information and statistics;

"(10) identification of any weaknesses in such method and any problem which results from the operation of such method;

"(11) formulation of any necessary or appropriate new techniques for the collection and analysis of such information and statistics; and

"(12) examination of the feasibility and advisability of developing or not developing Federal minimum benefit standards for State unemployment insurance program.

"(c) Powers of the Commission.

"(1) Hearings. The Commission, or, on the authorization of the Commission, any subcommittee or members thereof, may, for the purpose of carrying out the provisions of this section, hold such hearing, take such testimony, receive such evidence, take such oaths and sit and act at such times and places as the Commission may deem appropriate and may administer oaths or affirmations to witnesses appearing before the Commission or any subcommittee or members thereof.

"(2) Staff. Subject to such rules and regulations as may be adopted by the Commission, the Chairman shall have the power to—

"(A) appoint and fix the compensation of an executive director, and such additional personnel as he deems advisable, without regard to the provisions of title 5, United States Code [5 USCS §§ 101 et seq.], governing appointments in the competitive service, and without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title [5 USCS §§ 5101 et seq. and 5331 et seq.] relating to classification and General Schedule pay rates, except that the executive director may not receive pay in excess of the maximum annual rate of basic pay in effect for grade GS-18 of the General Schedule under section 5332 of such title [5 USCS § 5332 note] and any additional personnel may not receive pay in excess of the maximum annual rate of basic pay in effect for grade GS-15 of such General Schedule, and

"(B) obtain temporary and intermittent services of experts and consultants in accordance with the provisions of section 3109 of title 5, United States Code [5 USCS § 3109].

"(3) Contracts. The Commission is authorized to negotiate and enter into contracts with organizations, institutions, and individuals to carry out such studies, surveys, or research and prepare such reports as the Commission determines are necessary in order to carry out its duties.

"(d) Cooperation of other Federal agencies.

"(1) Information. Each department, agency, and instrumentality of the Federal Government is authorized and directed to furnish to the Commission, upon request made by the Chairman, and to the extent permitted by law, such data, reports, and other information as the Commission deems necessary to carry out its functions under this section.

"(2) Services. The head of each department or agency of the Federal Government is authorized to provide to the Commission such services as the Commission requests on such basis, reimbursable and

otherwise, as may be agreed between the department or agency and the Chairman of the Commission. All such requests shall be made by the Chairman of the Commission.

"*(3) Department of Labor.* The Department of Labor shall provide support for the Commission and shall perform such other functions with respect to the Commission as may be required by the provisions of the Federal Advisory Committee Act [5 USCS Appx, Federal Advisory committee Act§§ 1 et seq.].

"(e) Pay and travel expenses.

"(1) Pay.

"(A) In general. Members of the Commission who are not full-time officers or employees of the United States shall be paid compensation at a rate not to exceed the per diem equivalent of the rate payable for GS-18 of the General Schedule under section 5332 of title 5, United States Code [5 USCS § 5332], for each day (including traveltime) during which they are engaged in the performance of services for the Commission.

"(B) Officers or employees of the United States. Except as provided in paragraph (2), members of the Commission who are full-time officers or employees of the United States shall receive no additional pay on account of their service on the Commission.".

"*(2) Travel expenses.* While away from their homes or regular places of business in the performance of services for the Commission, members of the Commission shall be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses under section 5703 of title 5 of the United States Code [5 USCS § 5703]

"(f) Interim reports. The Commission shall, from time to time, transmit to the President and the Congress such interim reports as the Commission deems appropriate.

"(g) Final report. The Commission shall transmit to the President and the Congress not later than July 1, 1980, a final report containing a detailed statement of the findings and conclusions of the Commission, together with such recommendations as it deems advisable.

"(h) Termination. On the ninetieth day after the date of submission of its final report to the President, the Commission shall cease to exist.

"(i) Authorization of appropriations. There are hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this section.".

"(j) Exemption from requirements for Office of Management and Budget clearance.

"*(1) Federal Reports Act.* The requirements of chapter 35 of title 44, United States Code [44 USCS §§ 3501 et seq.], shall not apply to the Commission.

"*(2) Reports to Congress.* Any reports submitted to the Congress by the Commission shall be submitted directly to the Congress and

shall not be subject to any requirements for clearance of reports by the Office of Management and Budget.".

"(c) Effective date.

Application of amendments made by § 312 of Act Oct. 20, 1976. Act Oct. 20, 1976, P.L. 94-566, Title III, § 312(c), 90 Stat. 2679, as amended by Act Apr. 12, 1977, P.L. 95-19, Title III, § 301(b), 91 Stat. 43, effective Oct. 20, 1976, as provided by § 301(d) of Act Apr. 12, 1977, provided:

"(1) Except as provided in paragraph (2), the amendments made by this section [amending subsec. (a)(12) and (c) of this section] shall apply with respect to certifications of States for 1978 and subsequent years.

"(2) In the case of any State the legislature of which does not meet in a regular session which closes during the calendar year 1977, the amendments made by this section shall apply with respect to the certification of such State for 1979 and subsequent years.".

Application of amendment made by § 314(a) of Act Oct. 20, 1976. Act Oct. 20, 1976, P.L. 94-566, Title III, § 314(b), 90 Stat. 2670, provided: "The amendment made by subsection (a) [adding subsec. (a)(13)–(15) of this section] shall apply with respect to certifications of States for 1978 and subsequent years, or for 1979 and subsequent years in the case of States the legislatures of which do not meet in a regular session which closes in the calendar year 1977.".

Effect of transfer of funds on Virgin Islands unemployment compensation law. Act Oct. 20, 1976, P.L. 94-566, Title I, Part I, § 116(g), 90 Stat. 2673, provided:

"Transfer of funds." "The Secretary of Labor shall not approve an unemployment compensation law of the Virgin Islands under section 3304(a) of the Internal Revenue Code of 1954 until the Governor of the Virgin Islands has approved the transfer to the Federal Unemployment Trust Fund established by section 904 of the Social Security Act [42 USCS § 1104] of an amount equal to the dollar balance credited to the unemployment subfund of the Virgin Islands established under section 310 of title 24 of the Virgin Islands Code.".

Federal reimbursement for benefits paid to newly covered workers during transition period. Act Oct. 20, 1976, P.L. 94-566, Title I, Part II, § 121, 90 Stat. 2673, provided:

"Sec. 121. Federal reimbursement for benefits paid to newly covered workers during transition period.

"(a) General rule. If any State, the unemployment compensation law of which is approved by the Secretary under section 3304(a) of the Internal Revenue Code of 1954, provides for the payment of compensation for any week of unemployment beginning on or after January 1, 1978, on the basis of previously uncovered services, the Secretary shall pay to the unemployment fund of such State an amount equal to the Federal reimbursement for any compensation paid for a week of unemployment beginning on or after January 1, 1978, to any individual

whose base period wages include wages for previously uncovered services.

"**(b) Previously Uncovered Services.** For purposes of this section, the term 'previously uncovered services' means, with respect to any State, services—

"(1) which were not covered by the State unemployment compensation law, at any time, during the 1-year period ending December 31, 1975; and

"(2) which—

"(A) are agricultural labor (as defined in section 3306(k) of the Internal Revenue Code of 1954) or domestic services referred to in section 3306(c)(2) of such Code (as in effect on the day before the date of the enactment of this Act [enacted Oct. 20, 1976]) and are treated as employment (as defined in section 3306(c) of such Code) by reason of the amendments made by this Act, or

"(B) are services to which section 3309(a)(1) of such Code applies by reason of the amendments made by this Act.

"**(c) Federal reimbursement.**

"*(1) In general.* For purposes of this section, the Federal reimbursement for compensation paid to any individual for any week of unemployment shall be an amount which bears the same ratio to the amount of such compensation as the amount of the individual's base period wages which are attributable to previously uncovered services which are reimbursable bears to the total amount of the individual's base period wages.

"*(2) Reimbursable services.* For purposes of determining the amount of the Federal reimbursement for compensation paid to any individual for any week of unemployment, previously uncovered services shall be treated as being reimbursable—

"(A) if such services were performed—

"(i) before July 1, 1978, in the case of a week of unemployment beginning before July 1, 1978; or

"(ii) before January 1, 1978, in the case of a week of unemployment beginning after July 1, 1978; and

"(B) to the extent that assistance under title II of the Emergency Jobs and Unemployment Assistance Act of 1974 [P.L. 93-567 note to this section] was not paid to such individual on the basis of such services.

"*(3) Denial of payment.* No payment may be made under subsection (a) to any State in respect of any compensation for which the State is entitled to any reimbursement under the provisions of any Federal law other than this Act or the Federal-State Extended Unemployment Compensation Act of 1970 [Title II, P.L. 91-373, note to this Section].

"**(d) Experience rating of certain employers.** The unemployment compensation law of any State may, without being deemed to violate the standards set forth in section 3303(a) of the Internal Revenue Code of 1954, provide that the experience-rating account of any employer shall

not be charged for the compensation paid to any individual whose base period wages includes wages for previously uncovered services which are reimbursable under subsection (c)(2) to the extent that such individual would not have been eligible to receive such compensation had the State law not provided for the payment of compensation on the basis of such previously uncovered services.

"**(e) Certain nonprofit employers.** The unemployment compensation law of any State may provide that any organization which elects to make payments (in lieu of contributions) into the State unemployment compensation fund as provided in section 3309(a)(2) of the Internal Revenue Code of 1954 shall not be liable to make such payments with respect to the compensation paid to any individual whose base period wages includes wages for previously uncovered services which are reimbursable under subsection (c)(2) to the extent that such individual would not have been eligible to receive such compensation had the State not provided for the payment of compensation on the basis of such previously uncovered services.

"**(f) Payments made monthly.** Payments under subsection (a) shall be made monthly, prior to audit or settlement by the General Accounting Office, on the basis of estimates by the Secretary of the amount payable to such State for such month, reduced or increased, as the case may be, by any amount by which the Secretary finds that his estimates for any prior month were greater or less than the amounts which should have been paid to such State. Such estimates may be made on the basis of such statistical, sampling, or other methods as may be agreed upon by the Secretary and the State.

"**(g) Definitions.** For purposes of this section—

"*(1) State.* The term 'State' includes the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands.

"*(2) Secretary.* The term 'Secretary' means the Secretary of Labor.

"*(3) Benefit year.* The term 'benefit year' means the benefit year as defined in the applicable State unemployment compensation law.

"*(4) Base period.* The term 'base period' means the base period as defined by the applicable State unemployment compensation law for the benefit year.

"*(5) Unemployment fund.* The term 'unemployment fund' has the meaning given to such term by section 3306(f) of the Internal Revenue Code of 1954.

"**(h) Authorization of appropriations.** There are authorized to be appropriated from the general fund of the Treasury such sums as may be necessary to carry out the purposes of this section.".

Application of amendments made by Act Oct. 4, 1976. Act Oct. 4, 1976, P.L. 94-455, Title XIX, Subtitle A, § 1903(d), 90 Stat. 1810, provided that the amendments made to this section by P.L. 94-455, § 1903(a)(14) are applicable with respect to wages paid after Dec. 31, 1976.

Study and report by Secretary of Labor. Act June 30, 1975, P.L. 94-45, Title I, Part A, § 104, 89 Stat. 238 provided:

"The Secretary of Labor shall conduct a study and review of the program established by the Emergency Unemployment Compensation Act of 1974 [P.L. 93-572, note to this section] and the program established under title II of the Emergency Jobs and Unemployment Assistance Act of 1974 [P.L. 93-567, a note to this section] and shall submit to the Congress not later than January 1, 1977, a report on such study and review. Such study and review shall include—

"(1) the employment, economic, and demographic characteristics of individuals receiving benefits under either such program,

"(2) the needs of the long-term unemployment for job counseling, testing, referral and placement services, skills and apprenticeship training, career-related education programs, and public service employment opportunities, and

"(3) an examination of all other benefits to which individuals receiving benefits under either such program are eligible together with an investigation of important factors affecting unemployment, a comparison of the aggregate value of such other benefits plus benefits received under either such program with the amount of compensation received by such individuals in their most recent position of employment.".

Loans to Unemployment Fund of Virgin Islands. Act June 30, 1975, P.L. 94-45, Title III, § 301, 89 Stat. 243, provided:

"(a) The Secretary of Labor (hereinafter in this section referred to as the 'Secretary') may make loans to the Virgin Islands in such amounts as he determines to be necessary for the payment in any month of compensation under the unemployment compensation law of the Virgin Islands. A loan may be made under this subsection for the payment of compensation in any month only if—

"(1) the Governor of the Virgin Islands submits an application therefor no earlier than the first day of the proceding month; and

"(2) such application contains an estimate of the amount of the loan which will be required by the Virgin Islands for the payment of compensation in such month.

"(b) For purposes of this section—

"(1) an application for loan under subsection (a) shall be made on such forms and shall contain such information and data (fiscal and otherwise) concerning the operation and administration of the unemployment compensation law of the Virgin Islands as the Secretary deems necessary or relevant to the performance of his duties under this section;

"(2) the amount required by the Virgin Islands for the payment of compensation in any month shall be determined with due allowance for contingencies and taking into account all other amounts that will be available in the unemployment fund of the Virgin Islands for the payment of compensation in such month; and

"(3) the term 'compensation' means cash benefits payable to individuals with respect to their unemployment, exclusive of expenses of administration.

"(c) Any loan made under subsection (a) shall be repayable (without interest) not later than January 1, 1978. If after January 1, 1978, any portion of any such loan remains unpaid, the Virgin Islands shall pay interest thereon, until the loan is paid in full, at a rate equal to the rate of interest in effect under section 6621 of the Internal Revenue Code of 1954. If at some future date the Federal Unemployment Tax Act [26 USCS § 3311] shall be made applicable to the Virgin Isalnds, then, any amount of principal or interest due on any such loan remaining unpaid on such date shall be treated, for purposes of section 3302(c)(3) of the Internal Revenue Code of 1954, as an advance made to the Virgin Islands under title XII of the Social Security Act [42 USCS §§ 1321 et. seq.].

"(d) No loan may be made under subsection (a) for any month beginning after June 30, 1976. The aggregate of the loans which may be made under subsection (a) shall not exceed $5,000,000.

"(e) There are authorized to be appropriated from the general fund of the Treasury such sums as may be necessary to carry out this section.".

Special unemployment assistance; educational institution or agency. Act June 12, 1975, P.L. 94-32, Title I, Ch VI, in part, 89 Stat. 178, provided:

"Funds appropriated by this Act [P.L. 94-32, for full classification, consult USCS tables volumes], or any other Act, for the payments of special unemployment assistance under title II of the Emergency Jobs and Unemployment Assistance Act of 1974 [P.L. 93-567, note to this section] shall not be used for making such payments of assistance or waiting period credit, beginning after the date of enactment of this Act [enacted June 12, 1975], to any individual who performs services in an instructional, research, or principal administrative capacity for an educational institution or agency with respect to any week commencing during the period between two successive academic years (or, when the contract provides instead for a similar period between two regular but not successive terms, during such similar period) if—

"(1) such individual performed services in any such capacity for any educational institutional or agency for the first of such academic years or terms; and

"(2) such individual has a contract to perform services in any such capacity for any educational institution or agency for the latter of such academic years or terms.

Application and effective dates of amendments made by § 104 of Act Aug. 10, 1970. Act Aug. 10, 1970, P.L. 91-373, Title I, Part A, § 104(d), 84 Stat. 699, provided:

"(1) Subject to the provisions of paragraph (2), the amendments made by subsections (a) and (b) [amending subsec. (a) of this section and 26 USCS § 3309, 3311, prec. 3301] shall apply with respect to certifications of State laws for 1972 and subsequent years, but only with respect to service performed after December 31, 1971. The amendment made by subsection (c) [amending 26 USCS § 3303] shall take effect January 1, 1970.

"(2) Section 3304(a)(6) of the Internal Revenue Code of 1954 (as added by subsection (a) of this section) shall not be a requirement for the State law of any State prior to July 1, 1972, if the legislature of such State does not meet in a regular session which closes during the calendar year 1971.".

Application of amendment made by § 108(a) of Act Aug. 10, 1970. Act Aug. 10, 1970, P.L. 91-373, Title I, Part A, § 108(b), 84 Stat. 701, provided: "The amendment made by subsection (a) [adding subsec. (a)(12) to this section] shall apply with respect to certification of State laws for 1972 and subsequent years; except that section 3304(a)(12) of the Internal Revenue Code of 1954 (as added by subsection (a)) shall not be a requirement for the State law of any State prior to July 1, 1972, if the legislature of such State does not meet in a regular session which closes during the calendar year 1971, or prior to January 1, 1975, if compliance with such requirement would necessitate a change in the constitution of such State.".

Application and effective date of § 121(a) of Act Aug. 10, 1970. Act Aug. 10, 1970, P.L. 91-373, Title I, Part B, § 121(b), 84 Stat. 702, provided:

"(1) Subject to the provisions of paragraph (2), the amendments made by subsection (a) [adding subsecs. (a)(7) to (10) of this section] shall take effect January 1, 1972, and shall apply to the taxable year 1972 and taxable years thereafter.

"(2) Paragraphs (7) through (10) of section 3304(a) of the Internal Revenue Code of 1954 (as added by subsection (a) of this section) shall not be requirements for the State law of any State prior to July 1, 1972, if the legislature of such State does not meet in a regular session which closes during the calendar year 1971.".

Application of amendments made by Act Aug. 10, 1970. Act Aug. 10, 1970, P.L. 91-373, Title I, Part D, § 142(i), 84 Stat. 708, provided that the amendments made to this section by P.L. 91-373, § 142(f)–(h) are applicable with respect to the taxable year 1972 and taxable years thereafter.

Unemployment compensation law of the Commonwealth of Puerto Rico. Act Sept. 13, 1960, P.L. 86-778, Title V, § 543(b), 74 Stat. 986, provided:

"(b) The unemployment compensation law of the Commonwealth of Puerto Rico shall be considered as meeting the requirements of—

"(1) Section 3304(a)(2) of the Federal Unemployment Tax Act [subsec. (a)(2) of this section], if such law provides that no compensation is payable with respect to any day of unemployment occurring before January 1, 1959.

(2) Section 3304(a)(3) of the Federal Unemployment Tax Act [subsec. (a)(3) of this section] and section 303(a)(4) of the Social Security Act [42 USCS § 503(a)(4)] if such law contains the provisions required by those sections and if it requires that, on or before February 1, 1961, there be paid over to the Secretary of the Treasury, for credit to the Puerto Rico account in the Unemployment Trust Fund, an amount equal to the excess of—

"(A) the aggregate of the moneys received in the Puerto Rico unemployment fund before January 1, 1961, over

"(B) the aggregate of the moneys paid from such fund before January 1, 1961, as unemployment compensation or as refunds of contributions erroneously paid.".

CODE OF FEDERAL REGULATIONS

Approval of State unemployment compensation laws, 20 CFR Part 601.
Interstate arrangement for combining employment and wages, 20 CFR Part 616.

CROSS REFERENCES

Withdrawal as breach of conditions, 45 USCS § 363 note.
This section is referred to in 19 USCS § 2319; 26 USCS §§ 3302, 3303, 3305, 3309, 3310; 42 USCS § 1103.

RESEARCH GUIDE

Am Jur:

76 Am Jur 2d, Unemployment Compensation § 21.

Forms:

16 Federal Procedural Forms L Ed, Unemployment Compensation §§ 67:2, 67:3, 67:31.

24 Am Jur Pl & Pr Forms (Rev), Unemployment Compensation, Form 35

Federal Regulation of Employment Service

FRES, Labor Department § 73:30.

Annotations:

What constitutes labor dispute, strike, or lockout, within disqualifying provisions of Unemployment Compensation Act. 91 L Ed 146.

Judicial questions regarding federal social security act and state legislation adopted in anticipation of or after the passage of that tax, to set up "state plan" contemplated by it. 121 ALR 1002.

INTERPRETIVE NOTES AND DECISIONS

I. IN GENERAL

1. General requirements
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II. SPECIAL UNEMPLOYMENT ASSISTANCE PROGRAM

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III. FEDERAL-STATE EXTENDED COMPENSATION PROGRAM

17. Generally

Unemployment Compensation Act of 1970. Act Sept. 26, 1980, P.L. 96-364, Title IV, § 416(b), 94 Stat. 1311, provided:

"(b) Effective date.

"(1) In general. The amendment made by subsection (a) [adding § 202(c)] shall apply to weeks of unemployment beginning after October 1, 1980; except that such amendment shall not be a requirement of any State law under section 3304(a)(11) of the Internal Revenue Code of 1954 for any week which begins before June 1, 1981.

"(2) Special rule for certain states. In the case of any State the legislature of which does not meet in a regular session which begins during calendar year 1981 and before April 1, 1981, paragraph (1) shall be applied by substituting 'June 1, 1982' for 'June 1, 1981'."

Application of amendment made by § 414(a) of Act Sept. 26, 1980. Act Sept. 26, 1980, P.L. 96-364, Title IV, § 414(b), 94 Stat. 1310, provided: "The amendment made by subsection (a) [amending subsec. (a)(15)] shall apply to certifications of States for 1981 and subsequent years.".

SPECIAL UNEMPLOYMENT ASSISTANCE PROGRAM

Act Dec. 31, 1974, P.L. 93-567, Title II, 88 Stat. 1850; June 30, 1975, P.L. 94-45, Title II, §§ 201–203, 89 Stat. 240; Oct. 1, 1976, P.L. 94-444, § 6(a), (b), 90 Stat. 1480; Oct. 20, 1976, P.L. 94-566, Title VI, §§ 601(a), 602(a)–(d), 603(a), 90 Stat. 2689; Dec. 5, 1980, P.L. 96-499, Title X, Subtitle C, § 1021, 94 Stat. 2656, provided:

Secs. 201–210 [Unchanged]

Secs. 220–223. [Unchanged]

Sec. 224. Termination. Notwithstanding any other provision of this part [this note], the term "public service wages" shall not include remuneration for services performed in weeks which begin after the date of the enactment of this section [enacted Dec. 5, 1980].

FEDERAL-STATE EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

Act Aug. 10, 1970, P.L. 91-373, Title II, §§ 201–207, 84 Stat. 708; Oct. 27, 1972; P.L. 92-599, Title V, § 501, 86 Stat. 1326; July 1, 1973, P.L. 93-53, § 5, 87 Stat. 137; Dec. 31, 1973, P.L. 93-233, § 20, 87 Stat. 974; Mar. 28, 1974, P.L. 93-256, § 2, 88 Stat. 53; June 30, 1974, P.L. 93-329, § 2, 88 Stat. 288; Aug. 7, 1974, P.L. 93-368, § 3, 88 Stat. 420; Dec. 31, 1974, P.L. 93-572, §§ 106–108, 88 Stat. 1872; June 30, 1975, P.L. 94-45, Title I, Part A, § 102(b), 89 Stat. 238; Oct. 20, 1976, P.L. 94-566, Title I, § 116(d)(1), (2), Title II, § 212(a), Title III, § 311(a), (b), 90 Stat. 2672, 2677, 2678; Sept. 26, 1980, P.L. 96-364, Title IV, § 416(a), 94 Stat. 1310; Dec. 5, 1980, P.L. 96-499, Title X, Subtitle C, §§ 1022(a), 1024(a) 94 Stat. 2656, 2658, provided:

Sec. 201 [Unchanged]

Sec. 202. Payment of extended compensation.

Sec 202. (a)(1), (2) [Unchanged]

(3)(A) Notwithstanding the provisions of paragraph (2), payment of extended compensation under this Act [this note, among other things; for full classification, consult USCS Tables volumes] shall not be made to any individual for any week of unemployment in his eligibility period—

(i) during which he fails to accept any offer of suitable work (as defined in subparagraph (c)) or fails to apply for any suitable work to which he was referred by the State agency; or

(ii) during which he fails to actively engage in seeking work.

(B) If any individual is ineligible for extended compensation for any week by reason of a failure described in clause (i) or (ii) of subparagraph (A), the individual shall be ineligible to receive extended compensation for any week which begins during a period which—

(i) begins with the week following the week in which such failure occurs, and

(ii) does not end until such individual has been employed during at least 4 weeks which begin after such failure and the total of the remuneration earned by the individual for being so employed is not less than the product of 4 multiplied by the individual's average weekly benefit amount (as determined for purposes of subsection (b)(1)(c)) for his benefit year.

(C) For purposes of this paragraph, the term "suitable work" means, with respect to any individual, any work which is within such individual's capabilities; except that, if the individual furnishes evidence satisfactory to the State agency that such individual's prospects for obtaining work in his customary occupation within a reasonably short period are good, the determination of whether any work is suitable work with respect to such individual shall be made in accordance with the applicable State law.

(D) Extended compensation shall not be denied under clause (i) of subparagraph (A) to any individual for any week by reason of a failure to accept an offer of, or apply for, suitable work—

(i) if the gross average weekly remuneration payable to such individual for the position does not exceed the sum of—

(I) the individual's average weekly benefit amount (as determined for purposes of subsection (b)(1)(C)) for his benefit year, plus

(II) the amount (if any) of supplemental unemployment compensation benefits (as defined in section 501(c)(17)(D) of the Internal Revenue Code of 1954) payable to such individual for such week;

(ii) if the position was not offered to such individual in writing and was not listed with the State employment service;

(iii) if such failure would not result in a denial of compensation under the provisions of the applicable State law to the extent that such provisions are not inconsistent with the provisions of subparagraphs (C) and (E); or

(iv) if the position pays wages less than the higher of—

(I) the minimum wage provided by section 6(a)(1) of the Fair Labor Standards Act of 1938 [29 USCS § 206(a)(1)], without regard to any exemption; or

(II) any applicable State or local minimum wage.

(E) For purposes of this paragraph, an individual shall be treated as actively engaged in seeking work during any week if—

(i) the individual has engaged in a systematic and sustained effort to obtain work during such week, and

(ii) the individual provides tangible evidence to the State agency that he has engaged in such an effort during such week.

(F) For purposes of section 3304(a)(11) of the Internal Revenue Code of 1954, a State law shall provide for referring applicants for benefits under this Act to any suitable work to which clauses (i), (ii), (iii), and (iv) of subparagraph (D) would not apply.

(4) No provision of State law which terminates a disqualification for voluntarily leaving employment, being discharged for misconduct, or refusing suitable employment shall apply for purposes of determining eligibility for extended compensation unless such termination is based upon employment subsequent to the date of such disqualification.

(5) No payment shall be made under this Act to any State in respect of any sharable regular compensation paid to any individual for any week if, under the rules of paragraphs (3) and (4), extended compensation would not have been payable to such individual for such week.

(b) [Unchanged]

(c) Cessation of Extended Benefits When Paid Under an Interstate Claim in a State Where Extended Benefit Period Is Not in Effect.

(1) Except as provided in paragraph (2), payment of extended compensation shall not be made to any individual for any week if—

(A) extended compensation would (but for this subsection) have been payable for such week pursuant to an interstate claim filed in any State under the interstate benefit payment plan, and

(B) an extended benefit period is not in effect for such week in such State.

(2) Paragraph (1) shall not apply with respect to the first 2 weeks for which extended compensation is payable (determined without regard to this subsection) pursuant to an interstate claim filed under the interstate benefit payment plan to the individual from the extended compensation account established for the benefit year.

(3) Section 3304(a)(9)(A) of the Internal Revenue Code of 1954 shall not apply to any denial of compensation required under this subsection.

Sec. 203. [Unchanged]

Sec. 204. (a) [Introductory matter unchanged]

(1) [Unchanged]

(2) No payment shall be made to any State under this subsection in respect of compensation (A) for which the State is entitled to reimbursement under the provisions of any Federal law other than this Act, or (B) paid for the first week in an individual's eligibility period for which extended compensation or sharable regular compensation is paid, if the State law of such State provides for payment (at any time or under any circumstances) of regular compensation to an individual for his first week of otherwise compensable unemployment.

(3), (4) [Unchanged]

(b)–(e) [Unchanged]

Secs. 205–207. [Unchanged]

Application and effective dates of amendments made to the Federal-State Extended Unemployment Compensation Act of 1970. Dec. 5, 1980, P.L. 96-499, Title X, Subtitle C, § 1022(b), 94 Stat. 2656, provided:

"(1) Except as provided in paragraph (2), the amendments made by this section [amending § 204(a)(2) of Act Aug. 10, 1970] shall apply in the case of compensation paid to individuals during eligibility periods beginning on or after the date of the enactment of this Act [enacted Dec. 5, 1980].

"(2) In the case of a State with respect to which the Secretary of Labor has determined that State legislation is required in order to eliminate its current policy of paying regular compensation to an individual for his first week of otherwise compensable unemployment, the amendments made by this section shall apply in the case of compensation paid to individuals during eligibility periods beginning after the end of the first regularly scheduled session of the State legislature ending more than thirty days after the date of the enactment of this Act [enacted Dec. 5, 1980].".

Act Dec. 5, 1980, P.L. 96-499, Title X, Subtitle C, § 1024(b), 94 Stat. 2660, provided: "The amendment made by this section [adding 202(a)(3)–(5) to Act Aug. 10, 1970] shall apply with respect to weeks of unemployment beginning after March 31, 1981.".

RESEARCH GUIDE

Annotations:

Part-time intermittent workers as covered by or as eligible for benefits under state unemployment compensation act. 95 ALR3d 891.

INTERPRETIVE NOTES AND DECISIONS

9. Eligibility

Individual who files claim for benefits under extended benefit program is no less individual filing claim for unemployment than one who files claim for unemployment under regular scheme, and regulation that reinterprets eligibility to exclude individual filing certain atypes of claims who would be eligible under regular scheme exceeds authority of Secretary of Labor. AFL-CIO v Marshall (1980, DC Dist Col) 494 F Supp 971.

15. Teachers and other school employees

For purposes of Emergency Jobs and Unemployment Assistance Act of 1974 [26 USCS § 3304 note], school employees are not eligible for employment benefits during summer months because they are not then available for suitable work without limitation and thus are not actually and permanently attached to labor force; fact that teacher indicated she would accept full time employment is not dispositive of issue and state unemployment board could rely on her statement that she intended to return to school in fall. Ellman v Commonwealth, Unemployment Compensation Board of Review (1979, Pa Cmwlth) 407 A2d 478.

Where each school employee indicated that he or she would, if offered employment for next school year return to work, and there were no indications that any employees were terminated in their employment and each employee had been repeatedly rehired by his school district as substitute teacher for period ranging from 1 to 10 years, contract between employees and their school districts existed. Pac v Commonwealth, Unemployment Compensation Board of Review (1979, Pa Cmwlth) 409 A2d 470.

Layoff of 26 regular fulltime teachers at close of school year who would have priority over unemployment benefit claimant for future substitute teaching assignments, although relevant evidence with respect to likelihood of continued employment, is not alone determinative of whether teacher in school district had implied agreement with regard to future substitute teaching. Louderback v Commonwealth, Unemployment Compensation Board of Review (1980, Pa Cmwlth) 409 A2d 1198.

§ 3306. Definitions

(a) [Unchanged]

(b) Wages. [Introductory matter unchanged]

(1)–(4) [Unchanged]

(5) [Introductory matter unchanged]

(A) [Unchanged]

(B) under or to an annuity plan which, at the time of such payment, is a plan described in section 403(a),

(C) under or to a bond purchase plan which, at the time of such payment, is a qualified bond purchase plan described in section 405(a), or

(D) under a simplified employee pension if, at the time of the payment, it is reasonable to believe that the employee will be entitled to a deduction under section 219 for such payment;

(6) the payment by an employer (without deduction from the remuneration of the employee)—

(A) of the tax imposed upon an employee under section 3101, or

(B) of any payment required from an employee under a State unemployment compensation law,

with respect to remuneration paid to an employee for domestic service in a private home of the employer or for agricultural labor;

(7)–(13) [Unchanged]

(c)–(p) [Unchanged]

(As amended Apr. 1, 1980, P. L. 96-222, Title I, § 101(a)(10)(B)(ii), 94 Stat. 201; Dec. 5, 1980, P.L. 96-499, Title XI, Subtitle E, § 1141(b), 94 Stat. 2694.)

Chairman FORD. Mr. Dicks, in your statement you indicated that your State recently established a 13-week extension of unemployment benefits. Is that beyond the 39 weeks of unemployment benefits currently available?

Mr. DICKS. Yes, Mr. Chairman, our State has passed an additional 13 weeks' program.

Chairman FORD. What is the cost of that?

Mr. DICKS. Washington State estimates that it will cost $50 million.

Chairman FORD. $50 million.

Mr. DICKS. We would love to have the Federal Government paying half of it.

Chairman FORD. I will yield to Mr. Anthony?

Mr. ANTHONY. I would ask if you would submit us a copy of the particular piece of legislation, also.

Mr. DICKS. My staff will provide you a copy, Mr. Anthony.

Mr. ANTHONY. What I was interested in as a followup question was the manner in which it was funded.

Mr. DICKS. The funds for the Washington State 13-week extended benefits are being paid directly out of the regular State unemployment trust fund. Fortunately, the fund is sufficiently solvent that no increase in the tax rate was required or is currently anticipated. The extended benefit legislation has a sunset provision and will expire February 1983. The program is patterned after the Federal-State program currently in effect except that the trigger is calculated slightly differently and no Federal funds are expended.

Mr. ANTHONY. I will yield back.

STATEMENT OF HON. DENNIS E. ECKART, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. ECKART. I think you holding these hearings demonstrates that we in Congress are sensitive to the needs of the unemployed, which, as my colleague points out, is more than we got from this administration. I would point out to this committee when Mr. Speakes was asked about the levels of unemployment occurring across this country from the State of Washington to the State of Ohio, to the State of New York, south into the rural counties of Arkansas, represented by Mr. Anthony, in Tennessee—indeed from sea to shining sea—the response was that is the price you have to pay for controlling inflation.

Well, Mr. Chairman, I can tell you my 2½-year-old son could have done as good a job controlling inflation by allowing 10 million men and women to lose their jobs. This Congress, I believe, is not prepared to indorse high levels of unemployment as a means for controlling inflation.

I have a few very short remarks I would like to make with respect to my legislation. I thank my colleague from Washington for appearing to indorse it and others that you are considering. As my previous remarks indicate, this is critical for men and women everywhere.

The purpose of my legislation is twofold: First, to provide income support to the long-term unemployed; and second, to serve as a countercyclical program to restrict the scope of recessions and help

put the economy back on the growth track. Companion legislation provides for new jobs and really goes hand in hand with unemployed compensation assistance to provide help when one does not have a job and provide the educational opportunity to get a new job.

With the passage last summer of the Omnibus Reconciliation Act, several major changes were made in this important program. In short, these changes were as follows:

The elimination of the requirement that all States provide up to 13 weeks of extended unemployment benefits when the national insured unemployment rate exceeded 4.5 percent, which was effective immediately;

Second, the raising of the State mandatory and optional extended benefit trigger rates, which will become effective as of September 25, 1982;

And, the exclusion of persons receiving extended unemployment benefits from the calculation of the insured unemployment rate used to trigger extended benefits in States.

It is my opinion, and I believe it is shared by many others, that the changes contained in the Reagan administration-sponsored Omnibus Reconciliation Act regarding the extended benefits program were ill-considered and have destroyed men and women's jobs across the country.

Let's ask this administration the same question that candidate Reagan asked President Carter 2 years ago: Are you better off today than you were 1 year ago? The unemployed men and women in Ohio would answer that question with the following numbers: Last month 616,000 were unemployed in my State, the highest since the Great Depression; 1 year ago 471,000. The unemployment rate in Ohio was over 12 percent; 1 year ago a little over 9 percent. There is less employment in the State of Ohio than there was last year, with 169,000 less jobs in my State.

The unemployed in northeastern Ohio, my particular part of the State, will answer that question with a resounding no. And unemployment figures such as these are common throughout the States of the Midwest. They are spreading all across the country.

To at least partially address these concerns, I introduced H.R. 5284 during the last days of the first session. The unemployed in this country demand action. They don't want a handout; they want an opportunity to work. Until that opportunity is given to them, Mr. Chairman, we have to help them through these most trying of times.

The legislation I proposed would repeal the changes in the extended benefits program. The national trigger would be re-established. The mandatory and optional State extended benefit trigger rates would remain at the present levels of 4 percent and 5 percent, respectively. Individuals claiming extended benefits would again be included in determining the insured unemployment rate for extended benefit trigger purposes.

I think we are all aware of the impact of reducing the size of the Federal deficit. I hope we can soon accomplish that purpose. But by the same token, Mr. Chairman, it is absolutely counterproductive and foolish to try to do this on the backs of the elderly and unemployed, those who seek to merely survive in this country of great

opportunity. It is for that reason I urge the members of the subcommittee to give favorable and expeditious consideration to this legislation.

Your actions will play a critical role in Congress' response to that problem. I have had an opportunity to listen to some of the questions. I, too, can appreciate the deep concern over a sub-State mechanism to address the problems and peculiarities of individual localities within a given State. I, too, would like to see that idea advanced in some sort of workable mechanism. It would husband our resources more efficiently, better target the Federal benefit program to areas of great need and avoid the philosophical problem that we find ourselves in in certain other States around the country.

Aside from that I believe the time for this committee to act is now. I don't believe the unemployed can wait any longer.

[The prepared statement follows:]

STATEMENT OF HON. DENNIS E. ECKART, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

I have just a few remarks that I would like to make with respect to H.R. 5284, and to the unemployment situation in general. But first, I would like to thank the distinguished Chairman, Mr. Ford, and the other members of the subcommittee for allowing me this opportunity to offer testimony this morning and for focusing Congressional attention on one of the more serious problems facing our country today.

As previous testimony has indicated, the purpose of the extended unemployment benefits program is twofold: one, to provide income support to the long-term unemployed, and two, to serve as a countercyclical program to restrict the scope of recessions and help put the economy back on the growth track.

With the passage last summer of the Omnibus Reconciliation Act, several major changes were made in this important program. In short, these changes were as follows:

The elimination of the requirement that all states provide up to 13 weeks of extended unemployment benefits when the national insured unemployment rate exceeded 4.5 percent, which was effective immediately;

The raising of the state mandatory and optional extended benefit trigger rates, which will become effective as of September 25, 1982;

And, the exclusion of persons receiving extended unemployment benefits from the calculation of the insured unemployment rate used to trigger extended benefits in states, a provision which also became effective as of enactment.

It is my opinion, and I believe it is shared by many others, that the changes contained in the Reagan Administration-sponsored Omnibus Reconciliation Act regarding the extended benefits program were ill-conceived, and that they have had a deleterious effect on thousands of unemployed workers across the country.

During the past year, I have had the opportunity to go back to my District in Ohio and meet with many unemployed autoworkers, steelworkers, homebuilders, and others. When I say many, I mean just that, for the State of Ohio is presently experiencing its most severe economic downturn since the 1930s.

A few statistics will serve to "highlight" the economic situation that exists in Ohio today:

Jobless Ohioans numbered 616,000 last month—the highest total since the Great Depression. This compares to the year-ago level of 471,000;

The state unemployment rate last month was 12.3 percent. A year ago, the rate was 9.3 percent;

And, the total employment level for last month was 4,398,000. This level is 169,000 less than the March 1981 level.

Unemployment figures such as these are common throughout the states of the Midwest, and they are quickly spreading across the country. Unemployed workers all over are truly suffering because of the length and depth of the current recession.

To at least partially address the concerns of these unemployed workers, I introduced H.R. 5284 during the last days of the first session of this Congress. I did this in order to bring attention to the fact that thousands of unemployed workers were quickly exhausting their regular unemployment benefits, and that they had no ave-

nues open to them for securing extended benefits due to the changes made by the Omnibus Reconciliation Act which I detailed earlier.

Specifically, the legislation that I propose would repeal those changes in the extended benefits program. That is to say, the national trigger would be reestablished, both the mandatory and optional state extended benefit trigger rates would remain at the present levels of 4.0 percent and 5.0 percent respectively, and individuals claiming extended benefits would again be included in determining the insured unemployment rate for extended benefits trigger purposes.

I realize that the relative merits of a national trigger versus state triggers have been debated at length in the past, as has the issue of the duration of benefits. Furthermore, I realize that there is a substantial cost involved in making the changes which I propose, somewhere in the 3 to 4 billion dollar range. However, I feel it is imperative that something be done to alleviate the problems facing the unemployed.

As we are well-aware, reducing the mounting Federal deficit is of the utmost concern. I hope that we can soon balance it, and I will support reductions in the budget to accomplish that objective. Nevertheless, it is foolishly counter-productive to try to do this on the backs of the unemployed, the needy, and the elderly. It is for that reason that I strongly urge the members of the subcommittee to give favorable and expeditious consideration to this legislation, for it is your actions which will play a critical role in Congress' response to this problem.

Chairman FORD. Thank you very much.

Mr. ANTHONY. I appreciate you both coming and testifying, and acknowledging the severe problems you are experiencing in your home States and acknowledging the budget difficulties with which we have to operate.

Mr. Dicks, I would like to ask you a question. I happened to attend a full committee field hearing out in Seattle and asked a few questions when I was out there. I want to verify an impression that I got. I am correct when I say that both your legislatures are controlled by the Republicans?

Mr. DICKS. That is right.

Mr. ANTHONY. The State executive branch is controlled by the Republicans.

Mr. DICKS. That is right.

Mr. ANTHONY. Am I not correct in reading news accounts and hearing testimony out there that through proposals offered by the executive branch and passed by the two bodies controlled by the Republican Party that they have raised taxes in order to raise revenues to balance the budget and also to provide more spending for some social programs such as unemployment benefits?

Mr. DICKS. That is correct. Of course they had Democratic support in the legislature to accomplish it. There were a number of members of the Governor's own party—members that he called troglodytes—who refused to go along with any solution to the problem. But despite this opposition, the legislature did put together a program that will balance the budget, they raised taxes, and they were responsible in trying to come to solutions to the State's economic problems. The solution was reached on a bipartisan basis. Not a bad example for the rest of the country.

Mr. ANTHONY. You mentioned that because that was exactly the point I was trying to make. I think Washington State may be a microcosm in which the national Congress can take a look and see the cooperation, and not only that the leadership that was exerted out of an executive branch that may give some guidance to be used in the national Congress.

Mr. DICKS. We have not forgotten the unemployed. We have not forgotten the people at the lowest ends of the economic scale. We

have always had political leadership in our State, regardless of party, that will deal with these issues in a responsible manner.

Mr. ANTHONY. I came back very pleased with what I found out there. I had an opportunity to talk to your Governor and I said let me make sure I understand what you just testified to. It sounds like you are actually talking like a Democrat. You have criticized Democrats for doing the very same thing that you are in office doing.

He said, "Well, that is a good sinker but we did have to do the responsible thing and acknowledge reality, and we accepted it and we did it." I must admit I came back with a very warm feeling for the leadership that has been exemplified from your State and, of course, you are following up by coming to this committee.

Mr. DICKS. I would like to make one comment about the Omnibus Reconciliation Act. Last year drastic changes in this country's economic system were made in a bill that was only permitted 4 hours of debate, with no amendments. The bill was probably the most sweeping legislation domestically enacted since the New Deal era. No one at that point could have contemplated the kind of economic recession that we are now in. It seems to me totally appropriate to go back and say that, at the time, we hoped that we wouldn't have to use these programs as we used them in the past. But now we find ourselves in the most serious recession since the Great Depression and there appears to be no light at the end of the tunnel, no signs of any upturn.

Therefore, we must go back and make the necessary adjustments in programs that have always been there to help people at a time of need. These extended benefit programs are absolutely essential for people who are losing all faith. I would hope this committee, on a bipartisan basis, would come up with an answer. The American people will insist on it.

Mr. ANTHONY. You are saying things are different at the end of April 1982 than they were at August 1981, and take a new look at it.

And, Mr. Eckart, I would like to say I know your interest didn't just occur recently. I know you sat around the table earlier, and I think you are to be commended for ably representing your constituents by introducing legislation and coming forward and giving what I consider to be good testimony.

Mr. ECKART. I would just point out that this dilemma has hit in Ohio, too. It is a national problem. The State legislature last year, like the Washington State legislature, enacted the largest single tax increase in the history of our State. Now our State, still on top of that, faces a $1.6 billion deficit. Our economy in Ohio isn't in a recession, it's a depression, a cardiac arrest.

There are people who have lost their jobs who have little prospect, if any, of returning to their employment in the future. We are absolutely in dire straits. We can't wait any longer, Mr. Chairman. Housing foreclosures in one of the counties of my district are at their highest rate, including the time of the Depression. We have farm closings in parts of northeastern Ohio at the highest rate since the time of the Great Depression. Unemployment compensation assistance isn't going into piggybanks, it is going to pay housing bills, and food bills; it is keeping families together.

I think the kind of assistance we are talking about here, at this most severe of the economic times ever inflicted in the State of Ohio is absolutely critical and essential. I thank the gentleman from Arkansas for his kind remarks.

Chairman FORD. Mr. Moore?

Mr. MOORE. No questions, Mr. Chairman.

Chairman FORD. Thank you.

I would like to personally thank you and Mr. Dicks both and mention that you are so right when we look at the State of Washington and we see that your legislature has acted to provide additional unemployment benefits. It is a clear signal to Congress what we need to act on the Federal level. Many State legislatures will be out in the next 30 days, and will reconvene in the new session in 1983. I think the problem that we are faced with today cannot wait until State legislatures go back into sessions and to decide on what they can do, even if those States can afford to extend those benefits for the unemployed.

I believe the subcommittee and the Congress must be responsive to those who are unemployed and approve legislation that will provide needed relief.

Mr. DICKS. Thank you, Mr. Chairman, we appreciate your comments.

Chairman FORD. I would like to ask all of the witnesses to very quietly and quickly move to the first tier. There are about 25 seats in front and behind the witness table, plus there are seats here on the lower tier in front of us. We would like to ask that all witnesses who will be testifying today move to one of these seats. There is a large group that will be entering the room in a few minutes, and we are trying to accommodate them. I would appreciate very much if you would quietly and quickly move down front and take the seats immediately behind the witness table as well as these seats at the lower tier in front of the panel.

The committee would like to call the National Conference of State Legislatures: Hon. Diane E. Watson, chair of the health and welfare committee of the State of California, and Hon. Sara M. Townsend of New Hampshire, serving in the State house of representatives.

Senator Watson and Representative Townsend, we are delighted to have the two of you testify before the subcommittee. We will be more than happy to have your written statements submitted for the record. If you would like to summarize your statements, you may do so.

Ms. Watson, I would like to personally welcome you. Congressman Matsui wanted to be present this morning. He is testifying himself before another committee this morning. I think he will be here before you leave.

I have had the opportunity to meet you and work with you in the past. We know that you have had a hectic job over the last few months to analyze how the 1981 Reconciliation Act budget cuts will affect California.

I know, Ms. Townsend, you have been doing the same in your State, so we look forward to hearing your testimony.

You may proceed, Senator Watson.

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STATEMENTS OF HON. DIANE E. WATSON, CHAIR, HEALTH AND WELFARE COMMITTEE, CALIFORNIA STATE SENATE, AND HON. SARA M. TOWNSEND, NEW HAMPSHIRE STATE HOUSE OF REPRESENTATIVES, BOTH ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Ms. WATSON. Thank you so much. I bring you greetings from your colleagues out in California. I want to commend you for the bills you have introduced. I wish you great luck, as I wish all of us.

Let me introduce myself. I am Diane Watson, a State senator from California. I am currently the Chair of the California Senate Health and Welfare Committee. I am here today on behalf of the National Conference of State Legislatures and I am representing their position. Not all of their position is mine but I do want you to know that today my remarks are on behalf of the Nation's 7,500 State lawmakers and 50 State legislatures.

We are members of the NCSL Human Resource Committee, and are pleased to be before you today to discuss changes to the AFDC program, proposed in the administration's fiscal year 1983 budget. State legislators across the country appropriate more than $6 billion annually to fund the AFDC program and have been involved in the financing, oversight, and improvement of the program since its inception. Because of the integral and active role State legislators play in the AFDC program, NCSL has considered reform of the AFDC program a priority for many years.

Mr. Chairman, we wish to make clear our belief that no Federal program should be immune from scrutiny in the effort to move toward a balanced Federal budget. At the same time, it is essential that our commitment to national objectives served by Federal human resource programs must not be compromised in the effort to reduce Federal spending.

NCSL would like to take this opportunity to restate and reconfirm our conviction that giving States more flexibility to administer AFDC and other Federal human resource programs is one of the most effective methods of producing real savings for taxpayers and reducing the growth of both State and Federal expenditures.

Today we will focus on some of the administration's fiscal year 1983 budget proposals for the AFDC program that we find most troublesome. Those programs are, one, new payment error sanctions; two, combined Welfare Administration block grant; three, mandatory establishment of workfare programs by the States and inadequate funding for mandated work requirements; four, counting low income energy assistance as income.

Now I will address the first two issues and my distinguished colleague will address the remaining issues, after which we would be pleased to answer any questions that you or the committee may have.

NCSL endorses the fundamental goals of a quality control system for AFDC, medicaid and food stamps. Quality control systems are essential management tools designed to keep elected officials, program managers and the public informed as to the overall efficiency of a program's operation.

We believe, however, that the Administration's proposal to phase in over a 3 year period full State responsibility for all payment

errors in the AFDC, medicaid and food stamp programs is unrealistic, unfair, and merely shifts program costs to States in an effort to reap Federal budget savings.

States are continuing to implement some rather extensive AFDC changes adopted in the Omnibus Budget Reconciliation Act of 1981. Even as we do so, the administration has proposed an additional 16 proposals for implementation in fiscal year 1983, and some it hopes to have implemented during the current fiscal year.

Again, most of my colleagues will not be in session when and if these far-reaching proposals are adopted, providing the States with little or no time to plan and effectively implement changes, consequently contributing to payment errors. We urge you to carefully consider our concerns during your discussions on the administration proposals.

NCSL has long supported the consolidation of categorical, nonentitlement programs into block grants to the States with broadly stated Federal objectives. I want to make it clear that is NCSL's position, not mine.

While we do not oppose the concept of the consolidation of administrative funds provided to the States to implement the AFDC, medicaid and food stamp programs, we oppose the arbitrary capping of these funds at 95 percent of the fiscal year 1982 level.

Now NCSL believes that efforts must be made to assist AFDC recipients to get off public assistance and into private sector employment. We also believe that States should have the authority to require recipients that are able to work to do so in State or locally established work and training, or workfare programs.

NCSL opposes, however, the administration's proposal to, one, require States to establish workfare programs and, two, Require States to perform a number of work-related requirements without sufficient Federal resources to implement the requirements.

I will let my colleague continue from here, Mr. Chairman, and I would like to make some comments of my own when she finishes.

Chairman FORD. Thank you.

Representative Townsend.

Ms. TOWNSEND. We believe that the States are best qualified to determine if the establishment of a workfare program would be cost effective and appropriate for the State given available State resources. As you know, there is little Federal money available for the supportive services associated with workfare programs, such as daycare and transportation, that many of us feel are necessary to run an effective workfare program for AFDC recipients.

NCSL further believes that, when State legislators and other elected officials exercise flexibility made available to them by Federal law, that these decisions made in response to differing local conditions should be respected by the Congress and the administration. Local solutions to local problems in the administration of human resources programs, particularly in this area, should not be unilaterally canceled or replaced by inflexible nationwide mandates, requirements, and restrictions, unless a clear and convincing case has been made for national uniformity.

With respect to the proposals to: One, require all persons applying for AFDC to seek employment while their application is pending; and two, require all AFDC-U—unemployed parent—house-

holds to have one parent enrolled in a workfare program, we would make the following points.

Regardless of the merits of the proposals, these new requirements cannot implement or enforce themselves. Implementation requires professional employment specialists and support staff. The work incentive [WIN] program provided much of the assistance needed to effectively implement work registration and training programs.

The administration has requested no funds for the program, it has chosen to retain all the requirements provided for in the WIN authorization. In addition, while approximately 20 States indicated interest in participating in the 3-year WIN demonstration program, a workfare option proposed by this administration and enacted by this Congress, the administration, a few months later, proposed to no longer fund the WIN program.

Officials from the Department of Health and Human Services have indicated that they intend to initiate legislation that would permit States to continue the WIN demonstration and the regular WIN program with their social services block grant program. At the same time, the administration is requesting a $426 million reduction in that program. As you can see, the imposition of these additional requirements will again shift significant costs to State and local governments. NCSL vehemently opposes the imposition of inadequately funded Federal requirements on State governments and urges you to join us in our opposition.

COUNTING LOW INCOME ENERGY ASSISTANCE AS INCOME

Finally, we would like to address the proposal to count energy assistance payments as income in the AFDC program. NCSL has been a strong supporter of the low-income energy assistance program since its inception. We have always considered it to be a program which supplements existing sources of income for eligible households. But, to count either the direct payments or vendor payments made on behalf of these households as income in programs such as AFDC in our view defeats the purpose for which the program was developed, namely to help needy households meet the spiraling costs of home energy, something that many of them are unable to do with their current incomes.

We are very happy with the block grant and the flexibility afforded to the States in the block grant. We are particularly pleased that we are now able to fund weatherization activities through the energy assistance program. NCSL has long supported a comprehensive approach to energy assistance to the needy. We believe that both a cash assistance and weatherization component to such a program is important.

The proposed reduction from $1.875 billion in fiscal year 1982 to $1.3 billion in fiscal year 1983 will certainly limit our ability to assist those households that are in need of the basic cash assistance and will consequently limit the funds we will have available for weatherization innovations or basic weatherization services. NCSL strongly supports adequate funding for the energy assistance program.

Mr. Chairman, in closing we would like to State that NCSL believes that some short-term modifications are needed in the current AFDC program. Many of the changes initiated by Congress in recent years have been very positive, and NCSL hopes to work with you on future welfare reform proposals. During our policymaking meeting last December, the NCSL State-Federal Assembly adopted several recommendations for improving the AFDC program. A copy of our policy resolution is attached. This is very important.

We will resist proposed changes that when taken together will deprive the poor of needed assistance, further complicate an already complicated program, and arbitrarily shift costs to the States, through Federal mandates and inadequate funding for program implementation. We urge you to reject these proposals when they come before you later this year.

Thank you for affording us this opportunity to present our views. We will be glad to answer any questions you may have.

[The prepared statement follows:]

STATEMENT OF SENATOR DIANE E. WATSON, CHAIR, CALIFORNIA STATE SENATE COMMITTEE ON HEALTH AND WELFARE AND REPRESENTATIVE SARA M. TOWNSEND, NEW HAMPSHIRE STATE REPRESENTATIVE

Mr. Chairman and distinguished members of the subcommittee, my name is Diane Watson. I am a state senator from California and I am currently the chair of the California Senate Health and Welfare Committee. Accompanying me before you today is Sara Townsend, a state representative from New Hampshire and the Majority Whip of that body. We are testifying today on behalf of the National Conference of State Legislatures (NCSL), the official representative of our nation's 7,500 state lawmakers and 50 state legislatures. We are members of the NCSL Human Resources Committee and are pleased to be before you today to discuss changes to the AFDC program proposed in the Administration's fiscal year 1983 budget.

State legislators across the country appropriate more than $6 billion annually to fund the AFDC program and have been involved in the financing, oversight and improvement of the program since its inception. Because of the integral and active role state legislators play in the AFDC program, NCSL has considered reform of the AFDC program a priority for many years.

Mr. Chairman, we wish to make clear our belief that no federal program should be immune from scrutiny in the effort to move towards a balanced federal budget. At the same time, it is essential that our commitment to national objectives served by federal human resource programs must not be compromised in the effort to reduce federal spending. To ensure that a proper balance is struck between our obligations towards the needy, our efforts to reinforce the work ethic, and our need to curb the growth of federal spending, very careful targeting of AFDC and other human resource program spending reductions is required.

NCSL would like to take this opportunity is restate and reconfirm our conviction that giving states more flexibility to administer AFDC and other federal human resource programs in one of the most effective methods of producing real savings for taxpayers and reducing the growth of both state and federal expenditures. As our State-Federal Assembly concluded late last year, real savings to taxpayers—not just transferring costs from one level of government to another—must be the end result of any reduction in state-administered federal programs.

Today we will focus on some of the Administration's fiscal year 1983 budget proposals for the AFDC program that we find most troublesome: (1) New Payment Error Sanctions; (2) Combined Welfare Administration Block Grant; (3) Mandatory Establishment of Workfare Programs, by the States and Inadequate Funding for Mandated Work Requirements; and (4) Counting Low Income Energy Assistance as Income.

I will address the first two issues and my distinguished colleague will address the remaining issues, after which we would be pleased to answer any questions.

PAYMENT ERROR SANCTIONS

NCSL endorses the fundamental goals of a quality control system for AFDC, Medicaid and Food Stamps. Quality control systems are essential management tools de-

signed to keep elected officials, program managers and the public informed as to the overall efficiency of a program's operation. We beleieve, however, that the Administration's proposal to phase in over a three year period full state responsibility for all payment errors in the AFDC, Mecicaid and Food Stamp programs is unrealistic, unfair and merely shifts program costs to states in an effort to reap federal budget savings.

Over the past few years, states have made steady progress in reducing payment error rates in the AFDC program, reducing the average error rate from 16.5 percent in 1973 to 7.3 percent today. We believe that further reductions in the payment errors can and must be made. However, we also believe that the continued addition of complicated program requirements will make efforts to reduce these rates much more difficult.

Historically, error rates have risen when new eligibility requirements or benefit calculation procedures have been enacted. It takes time for both recipients and caseworkers, many of whom work in offices that are understaffed due to staff cutbacks many of us at the state level have been forced to make, to make the proper adjustments to new procedures and to new forms.

States are continuing to implement some rather extensive AFDC changes adopted in the Omnibus Budget Reconciliation Act of 1981. Even as we do so, the Administration has proposed an additional sixteen proposals for implementation in fiscal year 1983, and some it hopes to have implemented during the current fiscal year. Again, most of my colleagues will not be in session when and if these far reaching proposals are adopted, providing the states with little or no time to plan and effectively implement changes, consequently contributing to payment errors. We urge you to carefully consider our concerns during your discussions on the Administration proposals.

COMBINED WELFARE ADMINISTRATION BLOCK GRANT

NCSL has long supported the consolidation of categorical, non-entitlement programs into block grants to the states with broadly stated federal objectives. While we do not oppose the concept of the consolidation of administrative funds provided to the states to implement the AFDC, Medicaid and Food Stamp programs, we oppose the arbitrary capping of these funds at 95 percent of the fiscal year 1982 level. At the same time the Administration is proposing a 5 percent reduction in administrative funds, it is proposing that states assume a number of additional administrative functions in its fiscal year 1983 proposed budget which will result in additional administrative costs. Again, this proposal shifts additional program costs to the states—a trend that greatly concerns us.

WORK REQUIREMENTS

NCSL believes that efforts must be made to assist AFDC recipients to get off public assistance and into provate sector employment. We also believe that states should have the authority to require recipients that are able to work to do so in state or locally established work and training, or "workfare" programs. NCSL opposes, however, the Administration's proposal to (1) require states to establish workfare programs and (2) require states to perform a number of work-related requirements without sufficient federal resources to implement the requirements.

We believe that the states are best qualified to determine if the establishment of a workfare program would be cost effective and appropriate for the state given available state resources. As you know, there is little federal money available for the supportive services associated with workfare programs, such as daycare and transportation, that many of us feel are necessary to run an effective workfare program for AFDC recipients.

NCSL further believes that, when state legislators and other elected officials exercise flexibility made available to them by federal law, that these decisions made in response to differing local conditions should be respected by the Congress and the Administration. Local solutions to local problems in the administration of human resources programs, particularly in this area, should not be unilaterally cancelled or replaced by inflexible nationwide mandates, requirements, and restrictions, unless a clear and convincing case has been made for national uniformity. The careful decisions made by state officials with respect to workfare programs should not be overturned by the federal government. We do not believe that the test for replacing state discretion with a single national rule has been met in this case.

With respect to the proposals to (1) require all persons applying for AFDC to seek employment while their application is pending; and (2) require all AFDC-U (unemployed parent) households to have one parent enrolled in a workfare program, we

would make the following points. Regardless of the merits of the proposals, these new requirements cannot implement or enforce themselves. Implementation requires professional employment specialists and support staff. The Work Incentive (WIN) program provided much of the assistance needed to effectively implement work registration and training program. The Administration has requested no funds for the program, it has chosen to retain all the requirements provided for in the WIN authorization. In addition, while approximately 20 states indicated interest in participating in the 3-year WIN Demonstration program, a workfare option proposed by this Administration and enacted by this Congress, the Administration, a few months later, proposed to no longer fund the WIN program. Officials from the Department of Health and Human Services (HHS) have indicated that they intend to initiate legislation that would permit states to continue the WIN Demonstration and the regular WIN program with their Social Services Block Grant program. At the same time, the Administration is requesting a $426 million reduction in that program. As you can see, the imposition of these additional requirements will again shift significant costs to state and local governments, NCSL vehemently opposes the imposition of inadequately funded federal requirements on state govenments and urges you to join us in our opposition.

COUNTING LOW INCOME ENERGY ASSISTANCE AS INCOME

Finally, we would like to address the proposal to count energy assistance payments as income in the AFDC program. NCSL has been a strong supporter of the Low Income Energy Assistance program since it inception. We have always considered it to be a program which supplements existing sources of income for eligible households. To count either the direct payments or vendor payments made on behalf of these households as income in programs such as AFDC defeats the purpose for which the program was developed, namely to help needy households meet the spiraling costs of home energy, something that many of them are unable to do with their current incomes.

We are very happy with the block grant and the flexibility afforded to the states in the block grant. We are particularly pleased that we are now able to fund weatherization activities through the energy assistance program. NCSL has long supported a comprehensive approach to energy assistance to the needy. We believe that both a cash assistance and weatherization component to such a program is important. While we do feel that the 15 percent limitation on weatherization assistance may serve to stymie some creative appoaches to energy assistance, we are concerned that the substantial reduction in the program funding may well be a much greater deterrent. The proposed reduction from $1,875 billion in fiscal year 1982 to $1.3 billion in fiscal year 1983 will certainly limit our ability to assist those households that are in need of the basic cash assistance and will consequently limit the funds we will have available for weatherization innovations or basic weatherization services. NCSL strongly supports adequate funding for the energy assistance program.

Mr. Chairman, in closing we would like to state that NCSL believes that some short-term modifications are needed in the current AFDC program. Many of the changes initiated by Congress in recent years have been very positive, and NCSL hopes to work with you on future welfare reform proposals. During our policy-making meeting last December, the NCSL State-Federal Assembly adopted several recommendations for improving the AFDC program. A copy of our policy resolution is attached.

We will resist proposed changes that when taken together will deprive the poor of needed assistance, further complicate an already complicated program, and arbitrarily shift costs to the states, through federal mandates and inadequate funding for program implementation. We urge you to reject these proposals when they come before you later this year.

Thank you for affording us this opportunity to present our view. We will be glad to answer any questions you may have.

[Attachment]

HUMAN RESOURCES PROGRAM

IMPROVING THE AFDC PROGRAM

The AFDC program, as it is currently administered, is seriously flawed. The following problems are characteristic of the program: disincentives for work and development of self-sufficiency; Inadequate funding for employment services and training for employees; Provision of insufficient incentives to the private sector to hire em-

ployables; Imposition of costly administrative burdens on states because of the program's complex structure and rigid federal mandates.

State legislatures have long been involved in overseeing and improving the AFDC program and will continue to work to make the program effective. NCSL believes that the AFDC program can be reformed to correct the defects mentioned above, pending a more comprehensive reform of federal welfare programs. Specifically, NCSL urges that the following changes be made in the existing program:

Separation of employable applicants and recipients from unemployable applicants and recipients;

Development of a jobs component which assists employable applicants and recipients to secure employment as quickly as possible through direct job placement, mandatory job search, and required participation in appropriate job training programs;

Adequate funding for the jobs component through redirection of existing employment and training resources and savings from administrative simplification of programs;

Development of additional incentives for the private sector to hire employable applicants and recipients;

NCSL further believes that, in light of the current fiscal problems which many states face, it is inappropriate to shift additional AFDC costs to the states by altering the AFDC funding formula.

Chairman FORD. Thank you very much.

Mr. MATSUI. I would like to thank Senator Watson for coming and sharing her views.

Chairman FORD. Mr. Moore?

Mr MOORE. No questions.

Chairman FORD. Mr. Anthony?

Mr. ANTHONY. No questions.

Ms. WATSON. I would like to take 1 second to elaborate what the impact of the proposed measures would be on the State of California. If I might do so, Mr. Chairman.

Chairman FORD. Sure. Reading your statement, on page 2, your talk about the proposed mandatory requirement to establish workfare programs in all States and the proposal to count low-income energy assistance payments as income. I would hope that you would discuss those two points.

Ms. WATSON. I do want to clarify something that was said earlier that the State of California has tried workfare and it is working well. That is not true. We have had a program in several areas of the State, one in San Diego. It is a program that sounds good but removes the incentive of people who are on welfare to get off. It is punitive.

What we want to do is to be sure that the unemployed are trained with skills that will allow them to have upward mobility. They need to be counseled so there will be an assessment of their interests, their strengths along with their weaknesses so they can be channeled into areas where they can be successful, and workfare does not always produce that kind of behavior.

In terms of AFDC programing, we find that the eligibility and benefits to employment—excuse me—employable parents and relatives when the youngest child reaches age 16 would result in $9 million reduction to the State of California, and the persons that would be discontinued would total up to 15,000 plus, and about 17,000 would find that they would have reduced aid.

In the area of prorating shelter and utilities for AFDC families, the State of California would lose $25.6 million and about 1,900 people would be discontinued and over 500,000 would have a re-

duced grant. Counting energy assistance as income would result in a $2.3 million reduction and about 513,000 people would be off the rolls completely. Rounding payments to the next lowest dollar would be a slight decrease, but it would affect over 90,000 people. Combined administration of medicaid, food stamp and AFDC block grant would result as I understand in a Federal reduction of $50 million, but it supposedly will be a plus for the State. That is questionable.

I wanted to impress on you in the State of California we have the largest population, we have the largest number of immigrants coming in, we have the largest number of Spanish-speaking people outside of Mexico. We will have the largest number of Cubans, who will follow the Sun, will come to where their language is spoken. We will have the largest number of Haitians that will come for the same reasons. Therefore the demands on our resources are great.

We have a lot of people who have a misconception about the Californians. They call us a rich State. However, the condition of our revenues are very bad. We do have some potential State revenue measure increasing our State revenues. They are in draft form now. And, of course, as you know, Congressman Matsui, we will have a fight, this is an election year and it will be very difficult to get those measures through.

We recognize our position, we recognize the fact that the potential is there. However, because of the effect of proposition 13, indexing and the possibility that gift and inheritance tax will be repealed that we are going to be in even more dire measures than we are at the current time.

Mr. PEASE. Thank you very much, Senator Watson. If there are no further questions, we appreciate your time. This is a good example of the New Federalism in reverse. You are providing us with information on which we can make intelligent decisions.

Ms. TOWNSEND. Trickling down.

Mr. PEASE. We need to trickle up for good information.

Chairman FORD. The next witnesses are Kenneth Cory, Lewis Harris, and Stan Mead. Would you come to the witness table, please?

The Chair will recognize Mr. Moore at this time, from Louisiana.

Mr. MOORE. I would like to introduce to the members of the committee a constituent of mine, Mr. Stan Mead, who is presently serving as assistant director in the division of fiscal services, office of management and finance, the Louisiana Department of Health and Human Resources. He has been the administrator for a long time, and has done a fine job. I am pleased he is here. He has disturbing news about the projected changes.

Chairman FORD. Mr. Matsui?

Mr. MATSUI. I would like to introduce our State controller and a former member of the State assembly for a number of years, completing his second term, a gentleman who testified before this committee and other congressional committees a number of times. He is one of the leaders in calling the attention of California citizens to the pending budget crisis in the State. I welcome Mr. Cory.

Chairman FORD. The chairman would like to welcome Mr. Harris from the State of Tennessee. I have been in constant contact with

Commissioner Puett, relating to these issues we are discussing today, and the proposed budget cuts for 1983.

We welcome all three members of the panel. At this time the Chair will recognize Mr. Cory.

STATEMENT OF KENNETH CORY, CONTROLLER, STATE OF CALIFORNIA

Mr. CORY. Thank you, Mr. Chairman.

I am Ken Cory, controller of California, and I am pinchhitting for Bill Gunter. With your permission I would like to submit a copy of his testimony for the record.

Chairman FORD. We will make his statement a part of the record, Mr. Cory.

Mr. CORY. Thank you.

The controller of California is a constitutionally elected official and one of my major responsibilities is that of State cash manager. I take that responsibility quite seriously. For that reason I appreciate the opportunity to address you this morning on the subject of the delay of drawdown and the problems it causes the State of California and another 20 States that have constitutional and statutory impediments to accomplishing that which the Federal Government would like us to accomplish.

The procedure is one in which they want us to issue State warrants without having the cash in the bank. The local parlance for that procedure is kiting checks; I think that is what they really want us to do. In these times of tight money, it is a procedure we cannot do.

We get some confusing testimony from the people back here as to how much Federal money would be saved. There is a deferral of about $400 million, but that is a paper transaction, not a real substantive savings. There may perhaps be as much as $40 million savings if this Federal program were implemented.

The bill that has been introduced by Congressman Matsui would address that problem and avoid what HHS would like us to do. In essence, they want us to agree to definitional change that states that a letter of credit is equivalent to cash. I would like to strongly plead with you that it is a relatively simple matter—that a letter of credit is in fact a letter of credit, cash is cash.

Those are two different terms. The English language provided for them with two different terms because there is a different reason for each definition. In one letter to us, HHS stated: We believe the letter of credit guarantees that funds are on deposit and therefore should satisfy State legislative or constitutional requirements.

Then, later in the same letter, HHS says well, no, that is not the case. They say the letter of credit is the equivalent of cash and has been accepted as such for a number of years by States and other recipients. They are on both sides of the issue at various times.

I just have a problem being the cash manager and dealing with the tough day-to-day problems of cash. The check is in the mail really isn't a good enough statement. We hear it a lot, whether I am wearing my private hat in business or public hat as State controller. I do not mean any disrespect to the members of this panel; however, I am a little reluctant to accept these promises from the

Federal Government and say, "OK, the check is in the mail; I will go ahead and issue our checks." If we implemented the delay of drawdown program, I don't see how we could keep the fiscal integrity of the State of California intact. Or in more vernacular, if we believe all of these promises from you today, would you really respect us in the morning? That is what bothers us.

We think we know what DHHS is trying to do to us and we are resisting. My problem as State controller is relatively specific. I have a limited number of choices if the Federal Government goes ahead with delay of drawdown. We can substitute State reserves for the Federal share. At the present time the State of California has no reserves. We are presently internally borrowing $1.7 billion for our current operating expenses.

In essence, we could advance the Federal share through further internal borrowing; however, as I said, we are already borrowing $1.7 billion. That amount is virtually exhausted, and if the economy continues to be in the tough shape it is in today, we will be up against a finite amount of cash we can internally borrow. These internal borrowings must be repaid. If something goes awry, the accounts from which we borrowed have first right to the money, and we must repay them. My other choice would be to violate the State constitution and law because some Federal bureaucrat instructs me to do so. I am unwilling to do that.

I want to make that very clear. That is not a threat, it is a promise. I took an oath of office, and I will uphold that oath of office. My only alternative for AFDC and medicaid would be to go ahead and issue State warrants for our State share of the expense and not issue the payment for the Federal share. I believe that is all I have the constitutional and statutory authority to do unless a court is willing to give me some court-interpreted authority.

Now, many of the medical providers can survive. They can borrow the money and come through. Nursing homes would have a serious problem, because the nursing homes in California are not in good shape and they would be hard pressed rather quickly. However, the 1½ million AFDC mothers who are in California, cannot get by on half of the amount due them, or with a registered warrant for the other half, which is the other legal option that I might have. Registered warrants cannot be cashed and the beneficiaries cannot borrow the money.

We are now talking about the bottom rung of the ladder economically. These people cannot take a delayed payment. It is a very serious matter of whether or not they can survive. I think it is extremely important that you recognize that you cannot put that burden on that element of our society.

I am bound by a constitutional restriction. I want to solve their problems but I can't wave a magic wand. If the money is not there, the best I can do is issue them a check which they cannot cash at their banks, their grocery stores, or anywhere else. There is no money there.

I do not think that AFDC and medicaid were intended to put a burden on those people. I think Congressman Matsui's proposal is one that would avoid undue hardship to those who can least deal with it.

I thank you very much.

[The prepared statement follows:]

STATEMENT OF KENNETH CORY, CONTROLLER OF THE STATE OF CALIFORNIA

Mr. Chairman, my name is Ken Cory, and I am the Controller of the State of California. I would like to thank you for giving Stan Mead of Louisiana, Lewis Harris of Tennessee and me the opportunity to testify on an issue which is affecting a large number of States—the Department of Health and Human Services' cash management initiatives, particularly the delay of drawdown program.

I would like to take one moment to note that the Honorable Bill Gunter, the Treasurer of Florida and the President of the National Association of State Treasurers, had hoped to join us today; however, pressing State business prevented his attendance. Bill has been a leader of a coalition of States opposed to delay of drawdown. Without his able guidance, we probably would not be here today.

At this time, I ask that Mr. Gunter's statement be inserted into the hearing record.

Mr. Chairman, the Controller of California is the constitutionally elected fiscal officer of the State. The Controller is the cash manager and I take that responsibility very seriously.

Under delay of drawdown, States would be required to write checks without the Federal share in their depositories for the Medicaid and the Aid to Families with Dependent Children (AFDC) programs.

This procedure would require California to violate its Constitution which prohibits the issuance of warrants against insufficient funds. But California is not alone. A survey of the States by the National Governors' Association indicates that at least 21 States have Constitutional or statutory prohibitions against writing such checks or warrants. The States which cited these legal difficulties in the NGA survey are Alabama, Arizona, Kansas, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, North Carolina, South Carolian, South Dakota, Texas, Utah, Virginia and West Virginia.

These Constitutional and statutory problems are severe in themselves; however, the difficulty does not stop there. The delay of drawdown program would compound the hardships on States already suffering from last year's massive budget reductions and the substantial revenue shortfalls resulting from our current economic situation.

With the Chairman's permission, I would like to insert in the hearing record a table prepared by the National Governors' Association in the spring of 1981 which projects the fiscal condition of the States.

According to this table, at least 30 States were projecting budget deficits, and several were barely breaking even. More importantly, this information was collected prior to the enactment of the Omnibus Budget Reconciliation Act of 1981 which imposed extensive additional financial burdens on the State and local governments. I think it would be fair to predict that even more States are in fiscal trouble now.

I know that the Office of Management and Budget is pushing DHHS to improve its cash management policies. I also know that OMB is emphasizing those cash management initiatives which will look best on the Federal budget's balance sheet. If the Federal government can hold its share of the funds for Medicaid and AFDC until the checks clear the bank, it can claim a paper savings through this deferral of outlays.

At a meeting of State officials and representatives of DHHS, we were told that the outlay deferral would amount to $400 million. At the same meeting, we were told that DHHS actually would save only $40 million nationally through the implementation of this program.

The estimated savings would result from the elimination of the interest the Federal government would pay on its funds between the time the States draw down their Medicaid and AFDC shares and the time the checks and warrants are cashed.

I would like to point out that the $40 million savings figure is faulty. The program would increase State administrative costs, of which the Federal government pays half.

This is also a one-sided cash management initiative. As many States can attest, and I believe Mr. Harris from Tennessee will be addressing this issue, the Federal government is often very late in its grant awards. Thus, the States are required to "carry" the Federal government, sometimes for months, while waiting on late grant awards.

There certainly does not seem to be any urgent quest for equity in cash management on the part of the Federal government to improve their payment patterns for all program areas.

The real debate, with regard to delay of drawdown, is over the definition of cash. DHHS contends that its letter of credit is as good as the Federal cash in our depositories. Let me quote from a letter California recently received from DHHS:

"The letter of credit is the *equivalent of cash* and has been accepted as such for a number of years by the States and other recipients."

Then, in the same letter, DHHS contradicts its own point:

"We believe that the letter of credit *guarantees* that funds are on deposit and therefore should satisfy state legislative or constitutional requirements."

The question is: Is a letter of credit cash or the promise of cash. To me, my lawyers, my accountants and my State constitution, cash is cash and a promise is a promise.

I mean no disrespect to the Congress, but I am less and less willing to accept a promise from the Federal government that "the check is in the mail." Too often in the past we have accepted similar promises and we have found that they did not even respect us the next morning.

Mr. Chairman, I would like to outline my options if the delay of drawdown program is implemented.

1. We could substitute State reserves for the Federal share, but our reserves have been depleted.

2. We could borrow to advance the Federal share, but we have exhausted our borrowing authority.

3. I could violate the Constitution and my oath of office and issue the checks against insufficient funds. I will not do that.

My only alternative is to issue the State share of Medicaid checks to more than 100,000 participating health care providers and only the State share of AFDC checks to 1.5 million mothers with dependent children.

This is not a hollow statement meant to dramatize the situation. I have had a few years to think about this, and I want you to know that I cannot kite checks unless ordered to do so by a California court.

Although the doctors and hospitals would probably get by, hundreds of nursing homes caring for the elderly poor would fold almost immediately. Or, of course, they could borrow operating capital at 20 percent interest rates.

But 1.5 million mothers and their children cannot go to banks and borrow. They would be threatened with a loss of housing and food.

This is simply too high a price to pay over the Federal government's effort to save $40 million or two thousandths of one percent of the projected $180 billion deficit.

The unbending, uncompromising, blind drive to implement this minimal, technical program would result in a constitutional gunfight over pennies with literally millions of elderly Americans and poor mothers and children at risk.

When we began discussions with DHHS on delay of drawdown in 1979, I never expected that we would be forced to bring this issue to the Congress. But every effort we have made to work out a compromise with DHHS has been either laughed at, scoffed or ignored. And I mean that literally.

We have been told by Federal officials that we either accept the program as they present it, or the Federal government will simply not fund its share of the Medicaid and AFDC programs. Most recently, we have been told that if H.R. 5871 is passed and enacted, the Department would simply put California on "reimbursement." That means, we would have to advance the Federal share and invoice the Department for its share.

Mr. Chairman, I would like to thank you for the interest you have already exhibited in the plight of the States on the delay of drawdown issue. I would also like to thank Congressman Bob Matsui for introducing H.R. 5871 that will assure that the States can draw down funds for the Federal share of AFDC, Medicaid and Title XX when checks or warrants are issued to the beneficiaries and providers.

I respectfully urge the Subcommittee to move H.R. 5871 as quickly as feasible so that the beneficiaries of our public assistance programs can be assured that there will be no delay or cessation of their benefits due to administrative and fiscal turmoil.

TABLE A–7.—NATIONAL GOVERNORS ASSOCIATION FISCAL YEAR 1980 REVENUES, EXPENDITURES, AND SURPLUS OR DEFICIT

[In millions of dollars]

State	Revenues	Expenditures	Surplus or deficit (–)
Alabama	1,519	1,517	2
Alaska	2,501	1,166	1,335
Arizona	1,267	1,190	77
Arkansas	968	822	146
California	17,985	18,534	–549
Colorado	1,202	1,214	–12
Connecticut	2,394	2,392	2
Delaware	600	591	9
Florida	3,700	3,715	–15
Georgia	2,766	2,741	25
Hawaii	1,085	977	108
Idaho	356	360	–4
Illinois	7,442	7,442	0
Indiana	1,903	2,036	–133
Iowa	1,665	1,595	70
Kansas	1,098	1,112	–14
Kentucky	1,782	1,866	–84
Louisiana	3,021	2,849	172
Maine	522	527	–5
Maryland	2,592	2,618	–26
Massachusetts	3,558	3,959	–401
Michigan	4,720	4,772	–52
Minnesota	3,408	3,561	–153
Mississippi	958	970	–12
Missouri	1,836	1,749	87
Montana	248	236	12
Nebraska	725	571	154
Nevada	322	355	–33
New Hampshire	232	256	–24
New Jersey	4,667	4,770	–103
New Mexico	775	844	–69
New York	13,451	13,322	129
North Carolina	2,842	2,745	97
North Dakota	292	295	–3
Ohio	4,023	4,238	–215
Oklahoma	1,076	998	78
Oregon	1,249	1,424	–175
Pennsylvania	6,407	6,424	–17
Rhode Island	658	673	–15
South Carolina	1,568	1,529	39
South Dakota	225	220	5
Tennessee	1,698	1,699	–1
Texas	3,940	4,122	–182
Utah	739	747	–8
Vermont	218	226	–8
Virginia	2,392	2,485	–93
Washington	2,406	2,692	–286
West Virginia	1,034	1,045	–11
Wisconsin	2,980	3,329	–349
Wyoming	225	200	25
Total [1]	125,240	125,720	–480

[1] If adjustments are added to (subtracted from) revenues and transfers added to (subtracted from) expenditures, totals are revenues of $126,096, expenditures of $125,978 and surplus of $118.

Chairman FORD. Thank you.

Mr. Harris, before I recognize you, let me ask all of the members, staff and all of the witnesses in the audience, would you please

come and take seats at this lower tier. There are people who would like to come in and be seated, and we are trying to accommodate them. There are witnesses in the back, or congressional staff members. Please come and take the seats in the lower tier in front of the panel.

Mr. Harris.

STATEMENT OF LEWIS E. HARRIS, ASSISTANT COMMISSIONER FOR ADMINISTRATION, TENNESSEE DEPARTMENT OF HUMAN SERVICES

Mr. HARRIS. Mr. Chairman, distinguished members of the committee, I appreciate your taking the time to hear the testimony regarding the House bill 5871 and hopefully go on record as supporting that bill, hopefully get your support. In addition to the amendment that has been presented by Congressman Matsui, Tennessee has added some additional language to that amendment which deals with what we consider to be a major problem in addition to the delay of drawdown system. I hope we will be on record with that language.

Mr. Chairman, we have, in many of the States, are opposed to this new procedure. The HHS has proceeded in 14 States to do one of four things: violate constitutional or statutory provisions, which preclude the State from issuing payments without having sufficient funds on hand to do so; or incur higher administrative costs to implement and maintain the DODLOC than currently are being incurred; alter current banking arrangements to meet those procedures; and, last, to seek statutory changes and additional appropriations to allow States to comply.

March 29 several States were represented in a meeting here in Washington by approximately 30 representatives. Both the original amendment and the additional language put into the amendment by Tennessee was recommended at that meeting. We had unanimous support for the entire amendment.

Since some of the States have implemented this system we have learned that those States are now very opposed and realized the hardships it places on the States in implementing such a system. The new delay of a drawdown system only serves to further compound already existing problems of very poorly administered systems by the DHHS.

I would like to share with you some of those problems and the effects of those problems in the State of Tennessee. One of the major problems that we have is the current system and the grant award system and a letter of credit. The letter of credit established has no relationship whatsoever to the grant award itself. Quarterly the States submit what is called an OA-65 or estimate of expenditures. At the end of each quarter we submit an OA-141 which is actual expenditures. All expenditures incurred, for example, in the quarter of July through September, that is liquidated in the second quarter. It takes from 4 to 6 months to drawdown to the Federal policy.

In addition the grant awards are approved based on the estimate. The grant awards that Tennessee submits goes to the regional offices first, another bottleneck. The problems that exist there is that

the regional office in region IV handles grant awards and their reporting procedures are entirely different than what they are in many of the other regions.

Our grant awards, for example, in February 1980, are estimated expenditures for 16 million 300-some thousand dollars was adjusted down to the $10 million level, and further adjustments at the Federal level to $8 million. Tennessee was left with an $8 million deficit. It took us 7 months to draw those funds down.

On the example of liquidated expenditures to carry over in the next quarter, Tennessee's average would run from $1.3 million per month, or per quarter, to $3.5 million, which takes us again about 4 to 5 months to draw those funds down.

The HHS has published information stating that they are saving the Federal Government some $40 million in DHHS alone aided assistance. That is a myth. Tennessee is carrying the Federal Government on an average per month $6 to $9 million per month on funds, Federal funds that we were unable to draw down simply because of the frozen grant awards, which also ties in with this assistance.

We have experienced constant problems in cash management, which as a result we have added additional language in the amendments. I hope we may get your support for this bill. We think it is important legislation. It is certainly important to the State of Tennessee.

I thank you for your time.

[The prepared statement follows:]

Statement of Lewis E. Harris, Assistant Commissioner for Administration, Tennessee Department of Human Services

Over the past few years, Tennessee, as well as many other states, has experienced problems with the federal cash management system. The entire system should be reviewed and necessary revisions be made to the system to insure that it is fair to both State and Federal Governments.

Treasury Circular 1075 requires the timing and amount of cash advances to be as close as administratively feasible to actual disbursements by the recipient organization. Cash balances in hands of recipients are to be maintained near zero, or no more than three (3) days prior to anticipated disbursements. The Department of Health and Human Services has recently attempted to force a number of states to sign agreements to implement a Delay-of-Drawdown Letter-of-Credit. Under this procedure, disbursements are defined to mean that a disbursement of funds does not occur until a warrant written by a state is cashed and clears a state's banking system. The procedure requires the estimation of the daily redemption pattern of warrants for the federal programs involved and the drawdown of the federal share based on the estimate.

Although the states in general are opposed to this new procedure, DHHS is proceeding and forcing states to:

- *violate constitutional or statutory provisions which preclude a state from issuing payments without having sufficient funds on hand to do so;*
- *incur higher administrative costs to implement and maintain the DOD-LOC than currently are being incurred;*
- *alter current banking arrangements to meet DOD-LOC procedures; and,*
- *seek state statutory changes and additional appropriations to allow a state to comply with DOD-LOC procedures.*

Representatives of the Tennessee Department of Human Services met with representatives of other states in Washington in late March to review the current cash management process with special emphasis in the following areas:

- *Grant Award Issuance*
- *Letter-of-Credit*
- *Drawdown Patterns*

Steps have been taken to initiate the introduction of an amendment to the Social Security Act which addresses these issues. A draft copy of the amendment proposed by the Tennessee Department of Human Services is attached (see Exhibit 5). The proposed amendment was presented to other states attending a Washington meeting on March 29, 1982. The proposed amendment was unanimously approved by the approximately 30 representatives from several states who were in attendance.

The attached material details the chief problems associated with the current system. The proposed Delay-of-Drawdown Letter-of-Credit will serve to worsen all these problems rather than moving to alleviate them.

96-377 O - 82 - 33

Problems Associated with
Federal Cash Management System

1. *Grant award, letter-of-credit, and other components of federal cash management vary from federal agency to federal agency. Inconsistencies in these procedures result in increased administrative costs to the states. Cash management procedures should be standardized and under the control of one central federal agency, such as Treasury or OMB.*

2. *The current grant award process is based on a quarterly estimate of expenditures. Expenditures liquidated in one quarter which apply to a prior quarter cannot be included in the current quarter estimate. These items (Line 13 of Form SRS-OA-41) are reflected in the grant award issued three months after the close of the reporting period. This was a significant issue under Title XX (prior to block grant) and continues to be a problem in the AFDC grant program.*

   Example: Net of adjustments in the Title XX (including Title XX Training) and AFDC grant programs were as follows:

Period	Title XX	AFDC Grants
July - Sept. 1980	$1,069,327	$ 174,322
Oct. - Dec. 1980	3,222,713	177,096
Jan. - March 1981	2,653,376	163,776
April - June 1981	2,078,781	160,363
July - Sept. 1981	505,566	158,294
Oct. - Dec. 1981	3,243,677	165,685

3. *Grant awards submitted by the states are adjusted in an arbitrary manner by both the Regional and Central Staff of DHHS.*

   Example - See Exhibit 1.

4. *In those instances where expenditures exceed the quarterly grant award estimate, an exorbitant length of time is required before a supplemental grant award is issued.*

   Examples:

   a. *During Oct. - Dec., 1980, actual expenditures for Title IV-A including prior quarter adjustments exceeded estimated expenditures by $664,208. A supplemental grant award for the $664,208 was not received until 9/24/81.*

   b. *During Jan. - March, 1981, actual expenditures for Title IV-A including prior quarter adjustments exceeded grant awards by $549,309. A supplemental grant award for the $549,309 was not received until 9/08/81.*

5. *Grant awards should be issued to the state prior to the beginning of the applicable quarter. This is quite often not the case. As reflected in Exhibit 2, the Title XX, Title IV-B, Title IV-C and Refugee Assistance Programs are consistently late in grant award issuance.*

   Example - See Exhibit 2.

6. The ability of a state to make letter-of-credit drawdowns is controlled by (1) available grant award (2) letter-of-credit ceiling. DFAFS has proven to be unresponsive in increasing the letter-of-credit ceiling.

   Examples:

   a. On November 3, 1980, a request was submitted to DFAFS to increase the letter-of-credit ceiling from $31,800,000 to $46,637,668 for the period January - March, 1981. No action was ever taken on this request.

   b. On February 11, 1981, a request was submitted to DFAFS along with cash flow projections as support to increase the letter-of-credit ceiling for the period April - June, 1981, to $32,550,000. No action was ever taken on this request.

   c. On May 8, 1981, a request was submitted to DFAFS along with cash flow projections as support to increase the letter-of-credit ceiling for the period April - June, 1981, to $33,300,000. No action was ever taken on this request.

   d. Tennessee's letter-of-credit ceiling has fluctuated from a monthly to a quarterly ceiling. The state is provided little or no prior notice that a change is to be made.

      1) 7/01/75 - 5/31/80 - Monthly
      2) 7/01/80 - 12/30/81 - Quarterly
      3) 1/01/82 - 3/31/82 - Monthly; Department not notified until February.
      4) 4/01/82 - - Quarterly

7. Unrelated programs are often combined into a letter-of-credit. This complicates the administration of the letter-of-credit at the state level.

   Example - See Exhibit 3.

8. The problems detailed above result in the states being forced to cover federal expenditures with state funds for extended periods of time.

   Example - See Exhibit 4.

EXHIBIT 1

Form HDS-APS-65 | DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
Office of Human Development Services
Administration for Public Services | OMB No. 85R-0351
Approval Expires
July 1981

QUARTERLY ESTIMATE OF EXPENDITURES

State Tennessee Agency Human Serv. For Quarter Beginning April 1, 19 81

	Total (A)	Total (B)
1. Social Services (For States with plans approved under Title XX of the Social Security Act).....	$ 21,165,000	$ 16,310,800
Federal Share at: 75% $ 14,325,000 90% $ 712,800 100% $ 1,273,000 JFP, 75% $		
2. Personnel Training or Retraining Directly Related to Social Services (For States with plans approved under Title XX of the Social Security Act).....	$ 248,200	$ 186,200
3. Social Services (For plans of Trust Territories, approved under Titles I, IV-A, X, XIV or XVI of the Social Security Act):		
a. Social services under the limitations in Section 2002(a)(2)(d) of the Act...	$	$
b. Family planning under the limitations in Section 1108(b) of the Act.....	$	$
c. Other social services under the limitations in Section 1108(a) of the Act.....	$	$
4. Child-Care and Supportive Services for the Work Incentive Program, as required by Section 402(_)(19)(G) of the Social Security Act.....	$ 384,000	$ 345,600
TOTAL ESTIMATE	$ 21,797,200	$ 16,842,600

This report certifies that the above expenditure estimates for operation of the State's approved plan(s) during the specified quarter are based on the most reliable information available to the State. It is submitted in accordance with requirements of the Social Security Act, to be used in assessing the State's need for Federal funds in the form of grant awards for the specified quarter.

This report also certifies that amounts of State and local funds available for the quarterly operation of programs indicated in items (3) and (4) are:*

5. Total ....$ 4,954,600 State.....$ 4,954,600 Local.....$

Signed Thomas Lyn Pruett Executive Officer, State Agency Date 2/24/81

*The signature of the State Administrator on this form, when amounts have been entered in item 5 for the Total and for the State or State and local shares, will be acceptable as certification that these funds are, or will be, available to meet the non-Federal share of the estimates provided in items 3 and 4. For States in which the State Administrator is not considered to have authority to certify to the availability of State funds, this item will be left blank, and a certification by the appropriate State officials will be attached.

Social Services
Title XX
Third Quarter Fiscal Year 1980-81
April - June 1981

Allotment Code	Title	Amount
345.01	Administration	$ 625,000
345.16	Field Operations	1,100,000
345.17	County Rentals	500,000
345.40	Social Services	4,625,000
345.47	Board and Care	350,000
345.49	Community Services	
	Contracts	12,200,000
	Vendor Day Care	1,215,000
	Administration	550,000
	Total	$21,165,000 1/
	Federal Share	$16,310,000

1/ Includes the following amounts for Family Planning and Child Day Care:

Family Planning

Allotment Code	Title	Amount
345.01	Administration	$ 44,000
345.16	Field Operations	34,000
345.17	County Rentals	16,000
345.49	Community Services	
	Contracts	488,000
	Administration	210,000
	Total	$ 792,000
	Federal Share	$ 712,800

Child Day Care

Allotment Code	Title	Amount
345.01	Administration	$ 20,000
345.16	Field Operations	25,000
345.17	County Rentals	15,000
345.40	Social Services	80,000
345.49	Community Services	
	Vendor Day Care	1,133,000
	Total	$ 1,273,000
	Federal Share	$ 1,273,000

State and Local Training
Title XX
Third Quarter Fiscal Year 1980-81
April - June 1981

Allotment Code	Title	Amount
345.01	Administration	$ 235,700
345.40	Social Services	12,400
345.49	Community Services	100
	Total	$ 248,200
	Federal Share	$ 186,200

Work Incentive Program
Child Care and Supportive Services
Third Quarter Fiscal Year 1980-81
April - June 1981

Allotment Code	Title	Amount
345.01	Administration	$ 19,000
345.16	Field Operations	40,000
345.17	County Rentals	25,000
345.46	WIN	300,000
	Total	$ 384,000
	Federal Share	$ 345,600

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Human Development Services

Region IV
Suite 903
101 Marietta Tower
Atlanta GA 30323

March 19, 1981

Mrs. Sammie Lynn Puett
Commissioner
Department of Human Services
111 7th Avenue, North
Nashville, Tennessee 37203

Dear Mrs. Puett:

We have reviewed your estimate for Title XX Services for the April-June 1981 quarter of fiscal year 1981. Based on available data, we have reduced your estimate to $14,310,800 from the $16,310,300 shown on the Quarterly Estimate of Expenditures (HDS-APS-65) for this quarter. Our estimate is based on the following:

	State Estimate	Region Estimate
Contracts	$12,200,000	$10,300,000
Vendor Day Care	1,215,000	930,000
		$11,230,000
Other Activities		7,354,000
Total		~~18,584,000~~
FFP		$14,310,000

If Title XX expenditures exceed the $14,310,000 estimate, you may request a supplemental grant award. Your request should include justification for the additional funds. You do not have to revise the Quarterly Estimate of Expenditures (HDS-APS-65) unless the supplemental grant request plus the amount shown exceeds your original HDS-APS-65 estimate for the third quarter.

If you have questions please contact Jerry Hunter or Jim Storey at (404) 221-2199.

Sincerely,

L. Bryant Tudor
Regional Administrator

Comm To 3/30/81

RECEIVED
MAR 25 1981
COMMISSIONER'S OFFICE

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of
Human Development Services

Office of Assistant Secretary
Washington DC 20201

Tennessee Department of Human Services
111 7th Avenue North
Nashville, Tennessee 37203

MAR 30 1981

Dear Sir:

The grant awards listed below have been approved for the period 4/1/81 - 6/30/81 under Appropriation 75X1634 "PUBLIC ASSISTANCE." Any unused award authority may be carried forward and used in the subsequent period.

	CAN	Document No.	Amount
Social Services	1-1992339	01-8101TN1145	$ 7,466,652.00
	1-1992340	01-8101TN1145	1,273,000.00
Personnel Training	1-1992349	01-8101TN1245	$ 13,269.00

The above listed grant awards provide Federal funds for the Federal share of expenditures made in accordance with the Comprehensive Annual Services Program Plan operated pursuant to the State's plan approved under Title XX of the Social Security Act. Computation of the awards is shown on the enclosed statements.

With the acceptance of these awards, you agree to be responsible for limiting the drawing of Federal funds to the actual time of disbursement and to submitting timely reports as required. Further, you agree that when Federal funds are advanced to secondary recipients, you will be responsible for effectively controlling their use of cash in compliance with Federal requirements. Federal funds to meet the Federal share of current disbursing needs may be drawn by presentation of payment vouchers against the continuing letter-of-credit certified to the U.S. Treasury Department. Withdrawals of Federal funds are not to exceed the total grant award shown above. Under provisions of Treasury Department Circular No. 1075, failure to adhere to these fund withdrawal and reporting requirements may cause the unobligated portion of your letter-of-credit to be revoked.

Payments under this award will be made available through the HHS Departmental Federal Assistance Financing System (DFAFS). DFAFS is administered by the Federal Assistance Financing Branch (FAFB), Office of the Deputy Assistant Secretary, Finance which will forward instructions for obtaining payments. Inquiries regarding payment should be directed to the Chief, Federal Assistance Financing Branch, HHS, OS, C/O Rockwall Building, Room 833, 5600 Fishers Lane, Rockville, Maryland 20857, 301-443-4854.

Any questions you may have in connection with the enclosure should be referred to the Regional Administrator, Office of Human Development Services.

Please transmit the attached copy of this letter with enclosure to the State official authorized to sign payment vouchers on the letter-of-credit.

Sincerely,

Michio Suzuki
Acting Director
Office of Program Coordination and Review

Enclosure

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF HUMAN DEVELOPMENT

FORM 215

COMPUTATION OF AMOUNTS FOR PUBLIC ASSISTANCE GRANTS UNDER TITLE XX OF THE SOCIAL SECURITY ACT

STATE: Tennessee FISCAL YEAR: 1981 QUARTER: 1ST [ ] 2ND [ ] 3RD [X] 4TH [ ]

FUNDS IDENTIFICATION NUMBER: 75X1634

CRS/EIN: 1-62-600-1445-B3

	SOCIAL SERVICES (Including supporting administrative costs) 075% & 50% participation	SOCIAL SERVICES (Including supporting administrative costs) 0100% participation	PERSONNEL TRAINING AND RETRAINING DIRECTLY RELATED TO SOCIAL SERVICES (Including supporting administrative costs)
1. Adjustments for quarter ended December 31, 1980:			
a. Revised estimated share of expenditures (Form SRS-OA-411)	$ *	$ *	$ *
b. Estimated [illegible] share of expenditures			
c. Difference (+ = actual exceeded estimate, - = estimate exceeded actual)			
d. [illegible] adjustments applicable to prior periods (Form SRS-)			
e. Other (specify) _____ (Form SRS-)			
f. Total adjustments			
2. Estimated [illegible] share of expenditures for quarter beginning April 1, 1981 - 6/30/81	1/ 7,466,652.00	1,273,000.00	13,269.00
3. Net amount to be certified	$ 7,466,652.00	$ 1,273,000.00	$ 13,269.00

* Adjustments for the quarter ended 12/31/80, will be made in a supplemental grant award.

1/Central Office estimate. Estimate may be changed when the Regional Administrator's recommendation is received.

OHDS-OFCR-11 (9/80)

[illegible] 10 1981

Form 575 [illegible]
Formerly SS-5

OMB No. 85-R-515
Sept. 30, 1975

[illegible]

QUARTERLY STATEMENT OF EXPENDITURES [illegible]
FOR TITLE XX OF THE SOCIAL SECURITY ACT

State: Tennessee	Agency: Department of Human Services	Social Services Title XX	Quarterly Ending Date: 6-30-81 Personnel Training and Research Activities Related To Social Services
	Section A-Status of Funds for Quarter		
1. Unexpended authority for previous quarters (from line 6 of previous report)		9,972,205	125,288
2. Awards received during quarter (Federal share)		6,321,234	77,237
3. Awards returned during quarter (Federal share)		-0-	-0-
4. Current quarter authority available for expenditure (lines 1, 2, and 3)		16,293,439	202,525
5. Federal funds expended during quarter (Federal share)		9,026,265	202,525
6. Unexpended authority at end of quarter (line 4 minus line 5)		7,267,174	-0-
	Section B-Status of Federal Funds		
7. Federal funds on hand at beginning of quarter (line 10 of previous report)		(1,350,218)	(43,657)
8. Federal funds received during quarter		9,026,265	202,525
9. Federal share of collections reported in Section C			
10. Federal funds available (only for use in this program)			
A. Refunds			
B. Other (Specify)		24,249	375
11. Total of Federal funds to be accounted for (total of lines 7 through 10 inclusive)		7,700,296	159,243
12. Federal share of expenditures in this quarter (from attached computation form)		14,104,780	177,453
13. Federal share of adjustments increasing claims for prior quarters		2,103,405	
14. Other federal deductions (Specify)			
15. Total deductions from Federal funds (total of lines 12 through 14 inclusive)		16,208,185	
16. Federal funds on hand at end of quarter (line 11 minus line 15)		(8,507,889)	(18,210)

I, executive [illegible] (or designee) of the State agency submitting this report, certify that during or regarding the administration of plans approved under Title XX of the Social Security Act, as amended, the information shown in the above statement of this opportunity [illegible] my knowledge [illegible] U.S.

Date: 8/13/81

Signature: Tommie Lupe Pierce

Title: Commissioner

Forward [illegible] Regional Office [illegible] Social and Rehabilitation Service, [illegible] Independence Ave., S.W., [illegible] 20201.

Submit one form and one [illegible] to the State Grants Administration.

Exhibit 2

Grant Awards Issuance
for Selected Programs
Tennessee Department of Human Services

	Title XX		Title IV-A		Title IV-B		Title IV-C		Title IV-E		Refugee Resettlement	
	Date Issued	Amount	Date Issued	Amount	Date Issued	Amount	Date Issued	Amount	Date Issued	Amount	Date Issued	Amount
July - Sept. 1980			7/26/80	5,331,673								
	7/31/80	3,763,876	6/27/80	11,522,671								
	9/19/80	9,505,995	9/16/80	664,208	No Date	316,675	7/07/80	315,720				
Oct. - Dec. 1980											9/29/80	158,545
											12/12/80	268,925
	9/30/80	258,791	9/24/80	15,584,325							11/24/80	34,749
	9/30/80	13,843,854	4/07/81	1,328,061	12/23/80	360,542	10/21/81	333,900	6/15/81	597,228 1/		
			6/16/81	(597,228) 1/			4/28/81	57,781				
Jan. - March 1981											1/27/81	293,755
											2/02/81	12,647
	12/12/80	11,651,073	12/12/80	16,207,825	1/28/81	9,261,850					5/20/81	30,155
	12/12/80	180,000	4/07/81	318,994 1/	2/10/81	219,338	1/08/81	332,000	6/15/81	597,228 1/		
			6/06/81	(597,228)			7/16/81	28,948				
April - June 1981									6/15/81	597,228 1/	5/20/81	48,279
			3/24/81	15,797,400					8/05/81	(51,552)	6/30/81	112,422
	3/30/81	8,752,921	6/04/81	1,701,500	4/06/81	949,967	4/28/81	345,600				
	5/28/81	6,398,471	6/16/81	(597,228) 1/								
July - Sept. 1981					7/20/81	949,968						
			8/28/81	2,938,207	9/28/81	512,546	7/16/81	176,771	8/05/81	542,240		
			6/26/81	14,460,079	9/29/81	800,000	11/03/81	48,874	9/29/81	(171,988)	9/11/81	312,296
	7/07/81	13,746,800										
	7/16/81	(607,327)										
Oct. - Dec. 1981									11/04/81	202,651		
					11/05/81	345,665			12/15/81	101,326		
	10/07/81	12,093,964	9/30/81	15,828,385	12/15/81	172,833	11/19/81	284,996	1/25/82	224,241	11/10/81	360,235
			12/28/81	13,470,041								
Jan. - March 1982	1/07/82	12,077,958	2/26/82	1,226,600	2/02/82	1,075,166	Not rec. to date		1/25/82	498,280	1/06/82	350,641

1/ Transferred from Title IV-A to Title IV-E

EXHIBIT 3

Present Letter of Credits
Department of Human Services

Dept. of Education: Letter of Credit No. X594
- Blind Services (Support)
- Blind Services (Trust Fund)
- Blind Services (SSI)
- Blind Services (Training)

Letter of Credit V174:
- AFDC Grants

Letter of Credit 7749:
- Training IVA
- PA Administration
- Child Support
- Child Welfare
- Work Incentive
- Foster Care Grants
- Foster Care Administration
- Foster Care Training
- Indo-Chinese Refugee
- Cuban-Haitian

USDA - Letter of Credit No. 12-35-4733:
- Food Stamps

Block Grants - Title XX:
- Social Services
- Community Services
- Training

Exhibit 4

Selected Program Analysis
Title IV-A and Title XX
Federal Funds on Hand
October 1, 1979 - December 31, 1981

	Title IV-A Grants	Title IV-A Training	Title IV-A Administration	Title XX Administration	Title XX Training
Oct. - Dec. 1979	$(716,611)	$ 37,067	$(147,638)	$ 208,585	$ 75,330
Jan. - March 1980	(876,800)	35,035	152,399	106,793	(115,964)
April - June 1980	(1,012,137)	(24,255)	85,305	(1,106,601)	(175,426)
July - Sept. 1980	(6,121,827)	(29,933)	66,099	(6,237,854)	(397,309)
Oct. - Dec. 1980	(1,912,603)	(66,227)	27,427	197,310	(26,496)
Jan. - March 1981	(2,402,225)	(120,001)	160,769	(1,350,218)	(43,657)
April - June 1981	793,503	(69,599)	(305,974)	(8,507,889)	(18,210)
July - Sept. 1981	2,443,003	(19,142)	10,290	(6,875,263)	(52,401)
Oct. - Dec. 1981	1,936,198	27,968	160,462	(3,233,536)	(52,444)

EXHIBIT 5

PROPOSED AMENDMENT

The Social Security Act is hereby amended by adding the following new section:

Section 1136

Quarterly grant awards issued under Titles IV, XIX, and XX shall be based on quarterly estimates of total estimated liquidation submitted by the states. DHHS shall immediately notify any state of any revision to the state's quarterly estimate and shall allow any such state the opportunity to provide further justification for the estimate prior to the reduction in the requested grant award. Adjustments to prior quarter grant awards must be issued within fifteen (15) days after the receipt of the quarterly estimates. The quarterly letter-of-credit ceiling shall be based on available grant award for the quarter and shall be automatically adjusted as grant awards covered by the letter-of-credit are adjusted.

Federal funds claimed by a state with respect to expenditures necessary in carrying out its state plan approved under Titles IV, XIX, and XX of this act shall, at the option of the state, be drawn by the state from the U.S. Treasury either (1) at such times as necessary to assure that such funds are available in the State Treasury at the time the state issues checks or warrants with respect to such expenditures, or (2) at a later date.

Chairman FORD. I am the cosponsor for the legislation and I talked to the comptroller of the State and have joined with my colleague on the committee, Mr. Matsui, on this matter.

STATEMENT OF STAN MEAD, ASSISTANT DIRECTOR, DIVISION OF FISCAL SERVICES, LOUISIANA DEPARTMENT OF HEALTH AND HUMAN RESOURCES

Mr. MEAD. My name is Stan Mead. I am assistant director of the division of fiscal services for the Louisiana Department of Health and Human Services. I want to thank the committee for this opportunity to express our concern regarding the U.S. Department of Health and Human Services proposal to implement the delay of drawdown letter of credit procedure in the State.

We appreciate their concern regarding improving the management of Federal cash; however, we have very severe reservations regarding their current proposal.

Basically, as explained by my fellow colleagues here, this proposal requires the State to issue checks to AFDC recipients based on the promise from HHS that when those checks clear the bank, their funds will be available.

We asked our Attorney General in a letter from the Treasury to respond to this proposal.

I would like to quote from his opinion.

"No checks should be released by a State agency to be paid through Federal funds until the Federal funds are made available and credited to the bank on which the checks are drawn."

This opinion was transmitted to Secretary Schweiker of HHS by the Honorable Mary Evelyn Parker, treasurer of the State of Louisiana, in her letter of June 29, 1981.

Subsequent to that letter Secretary Schweiker reaffirmed HHS's position to implement this new position in all States in the Nation by September 30, 1982, in a letter to the Honorable David C. Treen, Governor.

Also in Secretary Schweiker's letter I quote, "I am willing to grant a temporary delay in implementation in Louisiana to 60 days following the closing of the next regular session of your State legislature. This delay will afford the State an opportunity to adjust its statutes to facilitate implementation of the new procedure."

We appreciate Secretary Schweiker's willingness to give us 60 additional days to amend our statutes. However, in his response, dated March 12 this year to Secretary Schweiker, Governor Treen stated, "Our legal problems with your procedure involve provisions of our State constitution which would have to be amended by popular vote of the electorate. I am not yet prepared to recommend an amendment to our legislature."

The reason Louisiana has taken the position is not only due to our constitutional and statutory problems, but we also feel that this should not be a unilaterally implemented proposal by DHHS but this proposal should be addressed by the Office of Management and Budget.

We feel that OMB should review the multiplicity of Federal reimbursement procedures and establish a procedure for all pro-

grams that would be both beneficial to Federal cash management and the States.

Louisiana could support such a proposal from OMB. We also have severe concerns regarding the manner in which HHS has tried to implement this program.

They seem to have taken the position that the States either implement the procedure or else. They have been nonresponsive to any compromise situation proposed by the States and it appears that they are trying to force implementation of this procedure without regard to State laws, constitutions, or concerns.

For these reasons, Louisiana strongly supports House bill 5871 regarding the timing of Federal payments to States for reimbursement in carrying out their State's plans approved under title IV.

We move that this committee do whatever it can to support this bill, to move it through the congressional processes and assist the States in delaying or stopping this proposal by HHS.

Again I would like to thank the committee for this opportunity for the State of Louisiana.

I would be happy to answer any questions you have regarding our position.

[The prepared statement and letters follow:]

STATEMENT OF STAN MEAD, ASSISTANT DIRECTOR, DIVISION OF FISCAL SERVICES, LOUISIANA DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman, my name is Stan Mead. I am the Assistant Director of the Division of Fiscal Services for the Louisiana Department of Health and Human Resources. I want to thank the committee for this opportunity to express Lousiana's concerns regarding the U.S. Department of Health And Human Services' proposal to implement the Delay of Drawdown Letter of Credit procedure in the state.

We appreciate the Department of Health and Human Services' concern regarding improving the management of federal cash, particularly during this time of severe budget limitations. However, we have serious reservations related to their current proposed procedure.

This procedure would require the state to issue checks to Aid to Families With Dependent Children recipients and Medical Vendor Providers without having received and deposited the federal share of the payments in the State Treasury. The actual federal share of the expenditures would be drawn from Department of Health and Human Services based upon an estimated check clearance pattern established by the Department of Health and Human Services. We requested our State Attorney General to review this proposal and it was his opinion that under the current state constitution and revised statutes "no checks should be released by a state agency to be paid through Federal funds until the Federal funds are actually made available and credited to the bank on which the checks are drawn." This opinion was transmitted to Secretary Schweiker by letter dated June 29, 1981 from Mrs. Mary Evelyn Parker, Treasurer of Louisiana (Letter attached). Subsequent to this, Secretary Schweiker reaffirmed the Department of Health and Human Services' position to implement the Delay of Drawdown procedure in all the states by September 30, 1982 in a letter dated January 27, 1982 to the Honorable David C. Treen, Governor of the State of Louisiana (Letter attached),

Also in his letter, Secretary Schweiker stated "I am willing to grant a temporary delay in implementation in Louisiana to sixty (60) days following the closing of the next regular session of your State Legislature. This delay will afford the State an opportunity to adjust its statutes to facilitate implementation cf the new procedure." We appreciate Secretary Schweiker's willingness to allow us the 60 additional days, however, in his response dated March 12, 1982 to Secretary Schweiker, Governor Treen stated "Our legal problems with your procedure involve provisions of our state constitution which would have to be amended by popular vote of the electorate. I am not yet prepared to recommend an amendment to our Legislature." (Letter attached)

The reason Louisiana has taken this position is that we feel this procedure should not be unilaterally implemented by the Department of Health and Human Services,

but should be addressed by the office of Management and Budget. We feel the Office of Management and Budget should review the multiplicity of federal reimbursement procedures and establish a uniform procedure for all federal assistance programs that will be both beneficial to federal cash management and to the states.

We are also seriously concerned with the manner in which the Department of Health and Human Services has tried to implement this program. They seem to have taken the position that either the states implement the procedure or else. They have been nonresponsive to any compromise situation proposed by the states and it appears that they are trying to force the implementation of the procedure without regards to state laws, constitutions or concerns.

For the above stated reasons, Louisiana supports House Bill Number 5871, regarding the timing of federal payments to states for disbursements made in carrying out its states' plan approved under Titles IV, XIX and XX of the Social Security Act.

Again, I would like to thank the committee for this opportunity, and welcome any questions you might have relative to Louisiana's position of Delay of Drawdown Letter of Credit.

STATE OF LOUISIANA,
DEPARTMENT OF THE TREASURY,
Baton Rouge, June 29, 1981.

Mr. DAVID A. QUINN,
Director, Division of Cash Management Policy and Procedures, Office of the Secretary, Department of Health and Human Services, Washington, D.C.

DEAR MR. QUINN: In accordance with our previous correspondence to you dated April 6, 1981, we enclose herewith a copy of Opinion Number 81-638 of the Attorney General's office. Although the Opinion is dated June 3, 1981, we have just received it. As indicated in the Opinion, the Attorney General has serious legal reservations concerning the delay-of-draw-down or checks-paid letter of credit.

We additionally find that there will be several areas where the delayed drawdown system will cause either a workload increase or a change in operations.

We will be glad to discuss further these matters with you or other members of your department when you arrive on July 13.

Sincerely,

MARY EVELYN PARKER,
State Treasurer.

Enclosure.

[Opinion No. 81-638]

STATE OF LOUISIANA,
DEPARTMENT OF JUSTICE,
Baton Rouge, La., June 3, 1981.

Hon. MARY EVELYN PARKER,
State Treasurer, State of Louisiana,
Baton Rouge, La.

DEAR MRS. PARKER: You have asked for an opinion regarding the legality of the implementation of a "delay-of-draw-down or checks paid letter of credit" system of spending an appropriation of funds by a state agency.

Currently, when a state agency such as the Department of Health and Human Resources needs to draw federal funds pursuant to appropriation in the General Appropriation Bill, that agency notifies the Treasurer's office of the amount needed and the Treasurer's office processes a letter of credit and cuts checks for the amounts. The letter of credit results in a Federal Reserve Bank wiring funds within one day to the appropriate bank so that when checks are presented, funds are available to honor those checks.

The proposed "delay-of-draw-down or checks paid letter of credit" system would result in federal funds not being wired to the appropriate bank until such time as it is anticipated that checks will actually have cleared, e.g., anywhere from two to four days on an average.

This office has found serious constitutional problems with using such a system. I would refer you to Article VII, Section 6(A) of the Louisiana Constitution of 1974 which reads as follows:

"Section 6. (A) Authorization. Unless otherwise authorized by this constitution, the state shall have no power, directly or indirectly, or through any state board, agency, commission, or otherwise, to incur debt or issue bonds except by law enacted by two-thirds of the elected members of each house of the legislature. The debt may be incurred or the bonds issued only if the funds are to be used to repel invasion; suppress insurrection; provide relief from natural catastrophes; refund

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outstanding indebtedness at the same or a lower effective interest rate; or make capital improvements, but only in accordance with a compehensive capital budget, which the legislature shall adopt."

Although an appropration of federal funds is made in the General Appropration Act, such an appropriation is effective only upon the availability of federal funds. If the actual federal funds are not transferred until such time as checks are received, or possibly even after they are received, a debt has been incurred through the issuance of these checks since no funds are in the bank to cover them. This process would be strictly prohibited by the above-quoted provision of the Constitution since no state agency is authorized to incur debt, except for capital improvements and even then upon a two-thirds vote of the Legislature. It is my understanding that checks under this system would not be issued for capital improvements to begin with, much less would they be authorized by a two-thirds vote of the legislature. Under the current system, no debt is incurred since federal funds are available as the checks are released by the agency.

In addition, under this system there would be a technical violation of La. R.S. 39:57.1. This statute reads as follows:

"§ 57.1 Expenditure of moneys in excess of funds appropriated; removal from office

The expenditure of any moneys in excess of the funds appropriated or otherwise allocated for expenditure by any board, commission, department or agency of the state during any fiscal year shall constitute reasonable cause for removal from office of the officer or officers, whether elected or appointed, responsible therefor in accordance with the provisions of Article X of the constitution, unless said officer first has obtained approval therefor of the interim emergency board and of the legislature by a two-thirds vote of the members thereof taken by mail ballot conducted by said board; provided, however, that the provisions of the section shall not apply to the department of military affairs or the department of public safety when a state of emergency has been declared by the governor so long as the department heads shall certify to the governor that the expenditure of funds is necessary as a direct result of said state of emergency. Amended by Acts 1976, No. 557, § 1."

The release of checks prior to the reciept of funds in the appropriate bank would be technically the expenditure of moneys in excess of funds appropriated since the Appropriation Act only appropriates federal funds as made available by the federal government. As you can see, although there would be an anticipation of the reciept of such funds from the federal government during the delay period, checks would be outstanding with no funds appropriated or allocated to cover them. Thus, the officer or officers releasing such checks would be subject to removal from office unless the Interim Emergency Board and the Legislature, by a two-thirds vote, approves the release of the checks.

In addition, the criminal statute La. R.S. 14:71 on issuing worthless checks would probably come into play under the proposed system.

I would also make one last comment regarding the fact that since federal funds are appropriated only as made available, Article III, Section 16 and Article VII, Section 10 of the Louisiana Constitution would come into play since the checks would purport to withdraw moneys from the treasury under an appropriation that would not be perfected at the time the checks were actually released. That is, if the funds are not available at the time the checks are released, the appropriation has not been perfected since it is only made subject to availability of funds. The above cited provisions prohibit expenditure of funds from the treasury except through valid (perfected) appropriation.

Based on the foregoing analysis, it is the opinion of this office that no checks should be released by a state agency to be paid through federal funds until the federal funds are actually made available and credited to the bank on which the checks are drawn.

Yours truly,

WILLIAM J. GUSTE, Jr.,
Attorney General.

By: Fred L. Chevalier, Assistant Attorney General.

SECRETARY OF HEALTH AND HUMAN SERVICES,
Washington, D.C., January 27, 1982.

Hon. DAVID C. TREEN,
Governor of Louisiana,
Baton Rouge, La.

DEAR GOVERNOR TREEN: The Department of Health and Human Services wrote to you in January 1981 announcing that we would require the States to use a delay-of-

drawdown letter of credit procedure for financing the Public Assistance programs. During 1981, Departmental staff met with various State officials to discuss implementing procedures. During the discussions, State officials informed us that Louisiana could not participate in this funding procedure due to constitutional and legal constraints.

Nevertheless, we are continuing our efforts to implement the delay-of-drawdown procedure in all the States. We have successfully converted sixteen States to the new funding procedure as of December 31, 1981. Two additional States are in the process of being converted. I am committed to implementing the delay-of-drawdown procedure as rapidly as possible in the fifty States with a goal of complete implementation by September 30, 1982.

I am writing to you to solicit your support and cooperation in helping to reach this major goal. I am willing to grant a temporary delay in implementation in Louisiana to sixty (60) days following the closing of the next regular session of your State legislature. This delay will afford the State an oppoirtunity to adjust its statutes to facilitate implementation of the new procedure.

I know you share my concerns for improving the management of Federal cash and I appreciate your efforts in overcoming these legal barriers.

Sincerely,

RICHARD S. SCHWEIKER,
Secretary.

STATE OF LOUISIANA,
EXECUTIVE DEPARTMENT,
Baton Rouge, La., March 12, 1982.

Secretary RICHARD S. SCHWEIKER,
Department of Health and Human Services,
Washington, D.C.

DEAR MR. SECRETARY: I received your letter of January 27 concerning your goal of implementing a delay-of-drawdown letter of credit procedure for Public Assistance by September 30, 1982.

I can appreciate your concern about improving the management of federal cash, particularly at a time of severe budget constraints. At the same time, I have serious reservations about the procedure you propose to implement, which poses problems for us similar to those that the status quo poses for you.

Our legal problems with your procedure involve provisions of our state constitution which would have to be amended by popular vote of the electorate. I am not yet prepared to recommend an amendment to our legislature.

I would hope that our staffs could meet in the next several weeks to discuss this subject further, with the objective of identifying alternatives that would meet your objectives without flying in the face of our budgeting, accounting and auditing procedures. I don't believe that equity can be achieved without looking across-the-board at cash management in all programs of federal assistance to Louisiana, and I would therefore propose that we draw OMB personnel into our discussions.

Dennis Daugherty of my staff will call Deputy Undersecretary Stockdale to arrange a meeting.

With warm regard, I am

Sincerely,

DAVID C. TREEN, *Governor.*

Chairman FORD. We thank the three members of the panel.

Mr. Harris, as I was saying earlier, I met Mr. Snodgrass, comptroller of our State, 2 months ago and discussed this particular matter with him. He explained it to me and I joined at that time with my colleague, Mr. Matsui, on the bill.

I clearly understand the problem that it creates. I think it is an area we will have to look into.

I know it would work a hardship upon the States to do this. I know all of the States are having this problem. I recognize Mr. Matsui.

Mr. MATSUI. I will keep my remarks and questions very brief. I think all three of you have illustrated the problems with the delay of drawdown concept.

Not only is there a cash and financial problem involved in this issue, but it is also an administrative nightmare. I think that is even more important than the issue of the loss of interest.

One of the issues that has me somewhat concerned is the statement made by both Dr. Harris and Mr. Cory regarding the administration's intent if H.R. 5871 should be passed.

The statement of Mr. Cory, and certainly Mr. Harris, indicated that you were both told that if the legislation is approved to prohibit delay of drawdown, then the administration, in order to subvert the will of Congress, will then require the States to comply with a reimbursement process.

Is that my understanding? Is that correct, Mr. Harris, Mr. Cory? Is that your testimony?

Mr. HARRIS. There has certainly been some discussion. They did not tell me directly that we would be forced into a reimbursement situation, but I have heard others say that the HHS representatives said they would go to that system.

Mr. CORY. I have heard the same rumors.

I find it hard to believe that any agency would not respond to a written mandate and, having been in the legislature of the State of California for 8 years, I would think you would have ample ways of dealing with such behavior if it became necessary.

We have seldom had that difficulty in California. I doubt you would here.

I think these tend more to be idle threats to try to keep the legislation from being passed.

Mr. MATSUI. What I shall do, and perhaps the chairman will join me, is direct a letter to the Health and Human Services Department to question them whether, if the legislation passes, that they would then go on a reimbursement basis.

Hopefully a response will come back before we mark up a bill. If we don't get a response, a positive response, I would entertain amendments to our legislation to prohibit such action.

I appreciate all three of you for supporting this legislation. I think it is important not only for the financial loss that the States will suffer, but most importantly because of the administrative nightmares and cash management planning problems that you will have to go through.

Mr. CORY. The way the system is put together, we would be back here asking for you to share in the costs of that administrative nightmare. We are not going to reduce the costs of government, at least in many of the States, if they continue with what they have in mind.

Mr. MEAD. Mr. Chairman, in further response with Mr. Cory, Louisiana's position would be to ask the Federal Government to share in the total cost of the program since it was their idea initially.

Chairman FORD. Mr. Moore?

Mr. MOORE. Thank you, Mr. Chairman.

I thank you for your testimony. I do not intend to support a program to cause a State to issue an invalid check or run the risk of a check that cannot be cashed by a bank because of insufficient funds.

Let me ask you this, the gentleman from Tennessee, Mr. Harris, made a comment his State was financing the Federal Government $6 to $8 million a month.

Mr. HARRIS. Yes, sir.

Mr. MOORE. How much of your concern can you quantify as the loss of the float of the federal funds, the ability to have those funds for 4 or 5 days or whatever time period, to invest?

How much of that is a concern? Can you quantify that?

Mr. HARRIS. There has not been that much of a concern expressed in the State by the State treasurer and the comptroller's office that we are losing a tremendous amount of interest on the State funds as a result of having to use State funds to cover the Federal funds.

But our main concern—well, of course, we have not put any figures to exactly how much that interest lost is, but we certainly know that the loss is there and——

Mr. MOORE. I am talking about the loss of interest on the Federal funds. I understand your point.

Mr. HARRIS. You would probably compute it on a 10-percent basis or something of that nature.

On an average of $6 to $9 million per month, the interest would run quite high. The problems are not just in the Department of Human Services. The problems exist across State government.

The different departments at the Federal level administer cash management entirely differently, but we are concerned that we are losing interest on these dollars and I think that the implementation of the delay of drawdown system has just simply brought to light the many problems that exist, the grant awards—these are the problems that we are talking about and addressing.

So, yes, this costs the State of Tennessee a considerable amount of money. I don't think that the people in the State were fully aware of that until this issue came up. When it did and went back and looked at our daily cash balances and so forth, we found we are truly funding the Federal Government at an extremely high rate each month.

Mr. CORY. Could I respond in part to that?

The question is how much of our concern is that we are making a little money on your dough. We participate in many different programs, but I'll focus just on APDC and medicaid for this point in time. Prior to the establishment of this coalition of States who feel we are being shabbily treated by HHS on delay of drawdown, I had written a letter offering to pay interest on these funds because our money is invested largely in Treasury bills.

At that time we were willing to pay the interest, to try to show that we were approaching this problem with clean hands. That was rejected by DHHS.

In fact, it was never answered.

This offer was made in writing in July of 1980. I think it is important for the committee to know that we tried to compromise on the issue.

I don't know what HHS' problems are or why they wouldn't accept our offer. I was trying to put the interest income issue to one side to say, look, we will work with you in good faith. We are

not trying to rip you off, but help us conform with the Constitution. Don't ask me to write a check with no money in the bank.

Mr. MOORE. I think, Mr. Cory, you have made a very fine offer; one I intend to instruct staff here to follow up on. I don't think we should be concerned here with a problem of your not getting interest on Federal funds. You never should have gotten that anyway. We shouldn't be, by the same token, having the Federal Government require you to cover our share of the bill.

If you are willing to pay interest on the Federal funds you are depositing, shift that interest back to us, that is a reasonable compromise.

Mr. CORY. Let me say at this point that that offer was made when the State of California and I were dealing unilaterally. At this point, for self-protection, there have been some rather strong bipartisan State coalitions put together to combat the delay of drawdown program.

I don't want this to be interpreted as a break in the coalition ranks in any way, shape or form. We are going to have to do what we have to do to stay alive. That offer was there, made in good faith. We were prepared to proceed on it at that time.

I thought that would end the problem. I am embarrassed to take the committee's time with this issue but we have made every effort to compromise; however, HHS' lack of responsiveness has forced us to seek a legislative remedy.

Mr. MOORE. This is a concern in which you are willing to give up the interest paid on the deposited Federal funds. That is not your major concern.

Your major concern is the use of the State of California, Tennessee, and Louisiana's funds to cover the Federal share of the debt instrument, am I correct in that?

Mr. MEAD. Yes, sir.

Mr. CORY. And the administrative nightmare that comes with the accomplishment of that.

Chairman FORD. Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman.

Mr. Mead, in response to some correspondence that the Governor had on—I can't see the exact date on my copy, but a letter back from Mr. Schweiker states that we have successfully converted 16 States to the new funding procedure as of December 31, 1981. In Mr. Cory's testimony he lists the 21 States that have constitutional statutory prohibitions against writing such checks or warrants.

I noticed that he omitted the State of Arkansas, so I will supplement the State of Arkansas as having a constitutional amendment or provision that I think will be put in the same category.

My question is, of the 16 States that have already been shifted, are any of them among those 21 States? If you don't know the answer, can somebody provide me with the answer?

Mr. MEAD. We can get the answer for you.

Mr. CORY. We will get the answer to you. We will have it to you sometime this afternoon.

Mr. ANTHONY. That would be fine.

What I am trying to find out is if any of the States have been able to work around either a constitutional provision or a statutory provision and, if so, of the remaining States that have those prohi-

bitions, laws are written more restrictively to the extent it will continue to cause you legal problems, which means the Federal Government may have to get involved as far as settling the dispute between the two, I think maybe more importantly if the 16 States are totally outside of that 21, what we certainly have is a dual class problem here that we are obviously going to have to address some way with legislation.

That is what I am trying to address.

Mr. CORY. We will try to get some background information to you.

Mr. ANTHONY. I am trying to resolve in my mind where the conflict is and arises, especially since I do represent a State that has a constitutional amendment and a legislative enactment that says we have to operate within a balanced budget.

We have very restrictive payment limitations.

Mr. MEAD. Mr. Anthony, I have been in discussion with my counterpart in the State of Arkansas with regard to this. I think you will find that they are of the same opinion that the three of us are.

Mr. ANTHONY. That would be my initial reaction, knowing what our State law is. What interests me is the fact that in face of all of this massive amount of opposition and legal obstacles, the administration is moving forward and just ignoring or, as you say, not willing to work with you, although in Mr. Cory's case it has presented what one would have to say is a very reasonable and maybe even beyond reasonable approach to try to resolve the problem as far as your State is concerned.

I was a little bit surprised in reading through the material that 16 States have been converted. So what I am trying to find out is, how can 16 States convert, not have any problem and how can 16 States basically fund the Federal Government's share temporarily and yet we have 21 States or 22 States, if you add Arkansas.

Mr. HARRIS. Some of the 26 States that have implemented the delay of drawdown have either contacted myself or other concerned people about the delay of drawdown and expressed deep concern about what the system has done to them, Missouri as an example.

Some of the States that did implement the delay of drawdown, I don't know how they afford the luxury, but they were drawing funds down in arrears anyway. The delay of drawdown did not necessarily have an effect on them. We also learned at the meeting of March 29 that States that implemented this new system were not having any problems in drawing their funds down, which is contrary to what the system is.

So we are into a situation here where there is absolutely no——

Mr. ANTHONY. Let me interrupt you at that point because you are now getting at the heart of why I want all of this stuff laid out on the table.

When we put all of the facts out there that is exactly what we are going to find. I am sorry that you anticipated where I was going. If there is no representative from one of these 16 States I certainly would encourage you to make a survey of those 16 States and add some additional testimony and the record will remain open—I assume that is correct.

Chairman FORD. Yes, it is.

Mr. ANTHONY. And add some additional testimony.

It is exactly what I would like to find out is, if those States who you think have been encouraged very strongly to go into the program, then seem to be getting most favored State treatment in that although they entered into it, there was no need for them to enter into it because they got the advance to begin with. I think the committee would be interested in comparing that with those who have legal problems and have not been recalcitrant because you wanted to be, but you were being recalcitrant because you were being responsible to your own legal obligations in your States.

Mr. HARRIS. We asked that question to the representatives from the DHHS, OMB, and the Treasurer's office, if they were showing favoritism to the States that were implementing the new system, and we got no response.

Mr. ANTHONY. Maybe Mr. Matsui can add a paragraph to the record and I will cosponsor it.

Chairman FORD. I will join with you two. I think that is unanimous.

The committee would like to thank all three members of the panel for appearing before us today and giving us the information we need to proceed on the legislation before the committee.

At this time the Chair recognizes our colleague, William Brodhead, from Michigan, who also serves on the Committee on Ways and Means and who is a distinguished Member of the Congress. We welcome you, Mr. Brodhead, back to the subcommittee on which you formerly served for many years, and appearing on behalf of the Speaker of the Michigan House of Representatives, the Honorable Bobby Crim.

STATEMENT OF HON. WILLIAM M. BRODHEAD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN, PRESENTING TESTIMONY OF BOBBY D. CRIM, SPEAKER OF THE MICHIGAN HOUSE OF REPRESENTATIVES

Mr. BRODHEAD. Thank you for giving me an opportunity to speak to the subcommittee today.

I am here on behalf of Bobby D. Crim, Speaker of the Michigan House of Representatives. Speaker Crim had intended to be here today. He called me last night. The State has a fiscal crisis due to the recession, really depression conditions in Michigan. There is an important piece of legislation pending before the legislature today and he felt he couldn't be here and asked me to present his testimony.

I would ask, Mr. Chairman, that the full text of Mr. Crim's testimony be entered into the record at this point.

Chairman FORD. The full text will be included and made part of the record. You may summarize his statement or whatever comments you would like to make.

[Written testimony was not received.]

Mr. BRODHEAD. I would like to informally summarize the situation.

As a former member of this subcommittee, Mr. Chairman, I know the challenge that you face here, and the difficulties that you have.

In the midst of a recession, when we are trying to get the Federal Government's deficit down, you face a very real crisis because you are trying to address a real human problem and at the same time address a very bad deficit situation.

I just wanted to make you aware, and I know Speaker Crim wanted to make the members of the committee aware of the very bad situation in Michigan.

When President Reagan took office, the situation was not good in Michigan. We had about a 12- to 13-percent rate of unemployment at that time. Today unemployment in our State of Michigan stands at 17 percent.

Seventeen percent unemployment in the State of Michigan.

Now, obviously, in a situation where you have 17 percent unemployment, there are not jobs for people. This depression in the State of Michigan has gone on since 1979. It has never changed. It has gotten steadily, steadily, steadily worse since 1979.

Enormous numbers, literally hundreds of thousands of Michigan people have exhausted their unemployment benefits. The changes in the law that we made last year in the Reconciliation Act have made the law even worse, even tougher, made it much more difficult for people to get the benefits they ought to have been entitled to.

So I hope that you will find a way, Mr. Chairman and members of this committee, to make some changes in the law that will address the fact that parts of this country are in a depression.

Some people have said that the United States of America isn't really in a recession. Part of America is doing all right and part of America is in a depression.

The average is a recession. Maybe that is what the situation is, but there isn't any question that certainly in my adult lifetime the situation in Michigan has never been worse. That is not rhetoric; that is not an exaggeration. You have to go back to 1933 in the city of Detroit to get to a situation the way it is today.

There has never been anything like it. So you have got to try to fashion some policy to address the problems that people are having. I hope that you will consider very carefully the legislation which I support, which is introduced by my Congressman colleague from Michigan, Congressman William Ford, for an extension of unemployment benefits.

There is one other issue I hope you will address. It is in a very, very urgent issue. I don't know how many of you members—I know you are, Mr. Chairman—are aware of the problems that have arisen because of States borrowing from the Federal trust funds to meet their obligations.

In a State like Michigan, which has steadily increased its unemployment insurance tax—despite those steady increases in the tax, virtually the highest level in the country, they can't meet their obligations.

So the State is faced with a choice. Under the law it is entitled to borrow. It has been borrowing from the Federal Government. At a time when there are enormous disincentives to do business in Michigan, a shortage of jobs in Michigan, they would have to raise their taxes tremendously in order to meet their obligations.

They have been borrowing. They are trying to get the program on a steady footing. There is enormous cooperation, efforts going on between business and labor and government in Michigan. We have to address the problem created by the Reconciliation Act last year, the penalty tax that was put on or the making it easier of the penalty tax to be put on and the interest that has to be paid on the borrowing.

Michigan is simply a State that cannot meet the conditions set forth in that act last year. We are not asking for a bailout, or for forgiveness. We are asking for a moratorium on paying that penalty tax, a moratorium on paying that interest.

What we are asking the committee to do is to fashion a proposal which we have presented to the staff and will shortly be presenting to the committee. This proposal is very tight and would address only a State like Michigan or some other State in an emergency situation which can't meet the conditions set down last year because it simply is sliding down.

If you can find a way to do that, then I think that will make it unnecessary for Michigan to further increase its tax on employers. That is the concern that we are facing in Michigan right now; we don't see how we can increase the tax on employment in a State with a 17-percent rate of unemployment. That just doesn't seem to make any economic sense. That is what I am asking you to look at; that is what Speaker Crim wants you to look at.

I thank you for giving me the opportunity to address this committee today.

Chairman FORD. Mr. Brodhead, we would like to thank you for your testimony today before the committee.

You have been a warrior as it relates to the unemployment issue in this country and especially on this committee. Thank you again very much for appearing before the committee.

At this time the Chair would recognize Mr. Matsui.

Mr. MATSUI. I have no questions. I would just like to thank Mr. Brodhead for his testimony.

I was in Detroit, Mich., last December for a hearing of the Committee on Ways and Means. I understand the concerns he has. I have never seen a community or city that has more of an aura of depression over it than that city.

Thank you.

Chairman FORD. Mr. Anthony?

Mr. ANTHONY. I have no questions.

Chairman FORD. Thank you very much, Mr. Brodhead.

Mr. BRODHEAD. Thank you, Mr. Chairman.

Chairman FORD. I would like to call the Delaware Valley Coalition for Jobs, Mr. Ron Miller, the Philadelphia unemployment project.

The Pennsylvania Public Interest Coalition, the Northeast Chapter, Mr. Edward A. Sherman, manager of the Pennsylvania Keystone Joint Board, Amalgamated Clothing & Textile Workers Union;

The Capital Area Community Action Program Council, UAW, Mr. Gary Watson, president;

Mr. Alan L. Jennings, coordinator for the Community Action Committee.

Mr. Miller, Mr. Watson, Mr. Jennings, Mr. Sherman, before you begin your testimony, as chairman of this committee, I want to acknowledge the large group of unemployed workers from Pennsylvania and from Michigan who have traveled so far to attend this public session today.

I understand that many of them work with you in the various organizations that you represent. I guess the recent announcement by the Department of Labor that the national unemployed rate is 9 percent is a clear signal that millions of unemployed men and women like yourselves face an economic emergency.

As the chairperson of this committee, I would hope that all members of this public assistance and unemployment subcommittee will work diligently to try to find solutions to these problems.

I know that this committee cannot respond to all of the problems because what we need now are more jobs in America.

But, until that time we need a program of extended supplemental unemployment benefits for jobless workers as well as some training and relocation assistance.

I would ask that the audience try to refrain from outbursts of applause. Because we are trying to accommodate all of the witnesses who will be testifying before the committee today, time is of the essence to the committee because there are some 25 more witnesses who are scheduled to testify before the committee today.

But I welcome each and every one of you who have traveled from Pennsylvania, from the State of Michigan, and other places, to this committee today and I ask that you not only participate in this committee session, but you also talk to your respective Representatives here in the Congress and ask them for their support as we move to mark up legislation that will respond to that unemployment problem which we are faced with in America.

At this time I would like to recognize Mr. Don Bailey of Pennsylvania who has been so helpful to the chairman in trying to move this committee in the direction of marking up legislation that will respond to the unemployment problem.

Mr. Bailey.

Mr. BAILEY. I thank you, Mr. Chairman.

Chairman FORD. There are about five or six busloads of people from the Pennsylvania area. I know you have a busy, busy schedule and you wanted to be here with them.

Mr. BAILEY. I want to express my appreciation to you for the kind things that you had to say. We have worked very hard on the subcommittee to try to solve some of these problems. I think you all know that. I think you also know very well the disagreements that we have with—I am speaking for myself in this regard—the current administration economic policy that translates into high unemployment figures, let alone the impact on benefit structure.

I might make one little note at this point about the income transfer issue involved in the so-called New Federalism and the effect on unemployment in our country.

It is a connection that is very rarely seen. Under the income transfer scheme of the New Federalism program, the change in Federal tax base to State tax—State and local tax bases—would be effected.

In Pennsylvania alone, it would mean an increase in State and local taxes of 10.1 percent just to maintain, unadjusted for inflation, current benefit levels.

All of you know what that means is that you are going to have a State that in its desire to solve some of its problems, given its unemployment compensation debt, the Federal Government is going to start looking at riper bills to try to solve the problems.

I hope when we look at the New Federalism in that context, Mr. Chairman, we will bear in mind the impact it potentially can have on benefit structure and that along with our doing something with benefits, we will also take a look at the tax and the cost side to make sure that we won't have an adverse impact on the benefits we worked so hard to extend.

Thank you.

Chairman FORD. Mr. Anthony, would you like to be recognized at this time?

Mr. ANTHONY. Mr. Chairman, although I don't have a busload of constituents out there, I think it is important to note that Arkansas has the seventh highest unemployment rate out of the 50 States, and the particular congressional district I represent has the highest unemployment rate in the State, so it is also an area that I am gravely concerned about and I pledge to my unemployed constituents, who could not come up here to speak for themselves, that I am going to be here fighting as hard as I know to try to bring some sense and balance into a national policy so that they will not continue to feel undue pain and suffering. I look forward to working with the chairman of this committee toward this end.

Chairman FORD. Thank you.

The panel will go in this order, Mr. Miller, Mr. Sherman, Mr. Watson, and Mr. Jennings.

STATEMENT OF RON MILLER, PHILADELPHIA UNEMPLOYMENT PROJECT, DELAWARE VALLEY COALITION FOR JOBS

Mr. MILLER. Mr. Chairman, ladies and gentlemen, good morning, good afternoon. First of all, I want to thank you, Mr. Chairman, for sponsoring H.R. 6805. I sent one of the many post cards you received about it.

Back in the recession of 1974, 1975, benefits were extended for up to 65 weeks. The current statistics make it look like we are in the worst recession in 50 years. An extension of unemployment compensation will help a great many people get over some rough times.

I have reluctantly agreed to be a speaker here today. One of the feelings you get when you are out of work is guilt. What did you do wrong? Why did you pick the trade that you were in? Will I be able to feed my family and keep my house?

Maybe instead of asking for more compensation I should be trying to get a job harder. But there are just not any jobs to be had these days. Some of the other feelings you get when you are unemployed are frustration and depression. I have a stack of letters at home that say, "We have reviewed your background, and regret that we currently have no suitable opening."

You can only take so much rejection before you start to lose hope. My situation started 7 months ago. The Bausch & Lomb Opti-

cal Laboratory was closed suddenly on a Friday morning in September. Most of the workers had over 10 years with the company, several over 25 years.

I had been there 12 years and had planned to stay. We suddenly found ourselves without jobs, income, life insurance, or medical coverage. Since then, four other major optical labs in the area have closed. I estimate that 90 percent of the people I worked with are still unemployed.

We have about 7 weeks left on our compensation benefits. In the month of February, 12,253 people exhausted their allotted compensation benefits in the State of Pennsylvania. The figure in Philadelphia alone was 3,370. Once that happens, once you use up your benefits, you are no longer even a statistic in the unemployment percentages.

To me, that is the whole point. We are not just statistics. I would like to ask all of the unemployed workers in this room to please stand up for a minute.

Mr. ANTHONY. The chairman of the subcommittee has previously given an admonition and we understand the frustration and we are going to be as lenient as possible, but we would also encourage you to cooperate with us so that we could hear the testimony and make the record very clear so that we can then move toward whatever legislative suggestions and enactments would be necessary.

So, again, I guess we just very pleasantly urge you to try to refrain from any other outbursts. Thank you.

Mr. Miller, go ahead.

Mr. MILLER. As I said, we are people, not numbers. People are familes and homes and cars and doctor bills to pay for. We are dependent upon the economy to live, to pay our way, national policies are enacted to slow down the economy and fight inflation. We are left to fight starvation. A friend of mine says if the unemployed workers are to be the soldiers in the war on inflation, then they ought to get some combat pay.

All over the Nation, people can't find jobs. Twenty States have a 10-percent or higher unemployment rate. In another 15 States, the rate is between 8 and 9 percent. We keep hearing that we are bottoming out but the bottom keeps getting deeper.

You all know President Truman's line about being in a recession when your neighbor is out of work and in a depression when you are out of work. Well, ladies and gentlemen, I am in a depression.

The people who came here with me are in a depression. There are thousands and thousands of people back home who are in a depression. We need the Congress to act quickly on this bill, H.R. 6085, to tide us over until things get better.

Until they do, we ask that you work on providing the jobs and training programs that are desperately needed by all of us caught in this depression.

Our group will be in the Capitol today to meet with our Representatives and further explain our situations to them.

Thank you for the opportunity to speak hear today.

Mr. ANTHONY. Thank you, Mr. Miller, for a very articulate statement. I did not know the order in which the gentlemen were introduced, so I will just go to Mr. Sherman next, then Mr. Watson and then Mr. Jennings.

STATEMENT OF EDWARD A. SHERMAN, MANAGER, PENNSYLVANIA KEYSTONE JOINT BOARD, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL-CIO, REPRESENTING THE PENNSYLVANIA PUBLIC INTEREST COALITION, NORTHEAST CHAPTER

Mr. SHERMAN. Thank you, Mr. Chairman. Honorable elected Federal legislators, my name is Edward A. Sherman. I reside in Allentown, Pa. I represent 17 local unions throughout the northeastern part of Pennsylvania with 2,800 members. I am also here representing the Pennsylvania Public Interest Coalition, Northeast Chapter.

I am here to convince you that H.R. 6085 should be passed as soon as possible.

I would be happy to answer any questions you may have. But I would first like to give you some facts as to why I feel the extension of unemployment compensation to 52 weeks is so terribly important to the unfortunate Americans who have found themselves unemployed in an economy which gives them so little expectation of relief or of finding gainful employment in the near future.

Right now, in the State of Pennsylvania, there are over 144,000 workers who have exhausted their unemployment benefits. Right now, in the State of Pennsylvania, there are 656,000 workers unemployed and with no expectation of finding work soon.

To help put this into focus, as in Washington it seems $1 billion doesn't mean much, to give you an example so you can bring it into focus of what 656,000 unemployed workers means, I would ask that you and the citizens of Pennsylvania to walk through the following cities of Pittsburgh, Allentown, Harrisburg, and Scranton.

Look at every man, woman, and child in these cities and consider them laid off the day you are there and that will show you what 656,000 unemployed really is.

What effect does unemployment of this magnitude mean to both the Federal Government and the State government? It means that both legislative bodies will be faced with a much higher crime rate.

In 1981, in Allentown, Pa., the crime rate rose 13.8 percent over 1980. Thefts increased 19.5 percent; robberies—theft from persons—increased 13.4 percent; burglaries increased 3.5 percent, and assaults increased 6 percent.

Although there are no statistics available as to how many of these crimes were committed by unemployed citizens, it certainly can be stated that some of them were part of the 144,000 unemployed persons who have exhausted their unemployment benefits and have become desperate.

It can only mean a greater disruption in the American family. It can only mean domestic quarrels, divorces, child abuse and the breaking up of thousands of families.

In our city recently, the city of Allentown, a man who was despondent over being unemployed, and who had served his country in Vietnam, attempted to kill his wife. He severely wounded her and then pointed his weapon at the police.

After wounding the police chief, he was killed in a blaze of gunfire. The chief reason for this depression, as was stated by the local

news media, was his recent layoff and the fact that he had no prospect for future employment.

The suicide rate among unemployed people is 30 percent—no, I mean 30 people—I don't know, I will have to get it to you, but 30 something.

I will get you the figures.

How many children of unemployed workers will not have a decent pair of shoes to wear to school today, as their mothers or fathers can't afford to replace them? How many children will not get the proper food on the table tonight, as their parents can't afford to buy it?

How many children won't be able to go to a roller-skating party with their school friends because their parents can't afford the cut-rate price of $1.50 that the school was able to get so that the kids could enjoy themselves together outside of the classroom?

I ask you to consider these questions and ask you to consider the fact that the American family today is being torn asunder by the New Federalism and by the new statism which is now becoming the statism which is cutting benefits further.

I ask you to support this bill. Thank you.

Mr. ANTHONY. Thank you very much.

[The prepared statement follows:]

STATEMENT OF EDWARD A. SHERMAN, MANAGER, PENNSYLVANIA KEYSTONE JOINT BOARD, AMALGAMATED CLOTHING & TEXTILE WORKERS UNION, AFL–CIO, CLC, REPRESENTING THE PENNSYLVANIA PUBLIC INTEREST COALITION, NORTHEAST CHAPTER

Honorable elected Federal Legislators. My name is Edward A. Sherman. I reside in Allentown, Pennsylvania. I represent seventeen (17) Local Unions through-out the Northeastern part of Pennsylvania with twenty-eight hundred (2800) members. I am also here representing The Pennsylvania Public Interest Coalition, Northeast Chapter.

I am here to convince you that HR 6085 should be passed as soon as possible.

I would be happy to answer any questions you may have. But I would first like to give you some facts as to why I feel the Extension of Unemployment Compensation to 52 weeks is so terribly important to the unfortunate Americans who have found themselves unemployed in an economy which gives them so little expectation of relief or of finding gainful employment in the near future.

1. Right now in the State of Pennsylvania there are One Hundred and Forty Four Thousand (144,000) workers who have exhausted their Unemployment Benefits.

2. Right now in the State of Pennsylvania there are Six Hundred and Fifty Six Thousand (656,000) workers unemployed and with no expectation of finding work soon.

To help put this into focus, as we sometimes look and hear about figures and they become so common that we have a tendancy to gloss over them. I would ask you and the citizens of Pennsylvania to walk thru the cities of Pittsburgh, Allentown, Harrisburg and Scranton. Look at every Man, Woman and Child in these cities and consider them unemployed and that will show you what Six Hundred and Fifty Six Thousand (656,000) Unemployed really is.

What effect does Unemployment of this magnitude mean to both the Federal Government and the State Government?

It means that both Legislative bodies will be faced with a much higher Crime rate. In 1981, in Allentown, PA. the crime rate rose 13.8 percent over 1980. Rape increased 47.6 percent. Thefts increased 19.5 percent. Robberies (theft from persons) increased 13.4 percent. Burglaries increased 3.5 percent. And Assaults increased 6 percent.

Although there are no statistics available as to how many of these crimes were committed by Unemployed citizens, it certainly can be stated that some of them were part of the One Hundred and Forty Four Thousand (144,000) Unemployed persons who have exhausted their Unemployment Benefits, and have become desperate.

It can only mean a greater disruption in the American Family. Domestic quarrels, Divorce, Child-Abuse and the breaking up of thousands of families.

In our city recently, a man who was despondent over being unemployed, and who had served his country in Viet Nam attempted to kill his wife. He severely wounded her and then pointed his weapon at the Police. After wounding the Police Chief, he was killed in a blaze of gun fire. The chief reason for this depression as was stated by the local News Media was his recent lay-off and the fact that he had no prospect for future employment. How many more are there, who are reaching this point of desperation???

How many children of unemployed workers will not have a decent pair of shoes to wear to school today, as their Mother's or Father's can't afford to replace them???

How many children will not get the proper food on the table tonight, as their parent's can't afford to buy it???

How many children won't be able to go to a Roller Skating party with their school friends because their parent's can't afford the Cut Rate price of $1.50 that the school was able to get so that the kids could enjoy themselves together outside of the class room?

If you believe any part of my statement, in good conscience you must support this Extension of Unemployment Benefits.

Thank you for your consideration. I am prepared to answer any questions at this time.

Mr. ANTHONY. Mr. Watson?

STATEMENT OF GARY WATSON, PRESIDENT, CAPITAL AREA COMMUNITY ACTION PROGRAM COUNCIL, LANSING, MICH.

Mr. WATSON. I am Gary Watson, president of the Capital Area CAP Council in Lansing, Mich., currently having some 30,000 members that I represent through various ways of my job.

I will touch, first, on a statistic he just brought up over there. My plant currently employs 12,500 workers, I have 2,500 laid off. I average one suicide a month that can be proven in my plant. One a month. We currently are conducting a study to try to find out why that is going on.

We don't have an answer. I am sure you don't, either. If you do, give it to me, I would like to take it home with me. As you said, we did come down here on buses, we boarded 2 buses around 8, I have some 70 unemployed workers with me today.

Their seniority can range anywhere from 5 years to anywhere from 8 to 9 months. Some of them are in their early teens, just out of high school, who have had trouble even seeking a job that will pay a wage with any kind of guarantee. Others have been fortunate enough to be hired, maybe laid off in another plant, came to our plant or came to our city, had some skills, got hired, and now their jobs have been eliminated also.

I think a message that came down here today from Bobby Crim, he kind of stole half of my speech, but we do have some 725,000 people unemployed in the State of Michigan now. Our unemployment rate has been double digits, I think now for 26 consecutive months.

As auto workers, we were granted concessions, hoping it would create jobs. Now, all we read in the paper is about big bonuses for higher executives, but nothing for those that give up to try to get the economy of the country back on its way where it should be headed for.

I don't have the answers as a union leader. We try to get our membership to give back, to turn this thing around so we can create jobs for the some 70 people with me, plus the other 6,500 at

home in the city of Lansing. These are just GM UAW workers; 6,500 in the city of Lansing.

I called Flint yesterday, talked to a large local in Flint that used to be 18,000 workers, currently is down to 10,000 active workers. That is 8,000 out of their plant that is now on unemployment. We have a small plant in town—we call it small, but it is the third largest employer in the city of Lansing.

Their unemployment is at 63 percent; 63 percent. If it wasn't for the State workers in the city of Lansing, I don't have any idea what our unemployment rate would be. The State is still funneling a little bit of money, but it is on the verge of going bankrupt, simply because none of us who are unemployed are paying in any longer.

We are asking that they take care of us. Now, we come down here and ask you to try to extend our benefits. I have been through 43 weeks of unemployment when I was first hired into GM.

I am one of the few that had a chance to ride the bus today that still is employed. There are 73 of us on the bus, 4 of us are employed. So, like I say, hopefully you can see the problems we face as union leaders, you face as leaders, elected leaders of the greatest country in the world.

We ask you to try to find us an answer. We will work with you in any way we can at home. We are currently working with our Congressmen, with our Senators, in any way, shape or form that we can.

Locally, we are forming a food bank to feed workers that can no longer draw benefits, but have to feed their family. But here they are only entitled to go there once a month. They can get up to 4 or 5 days' food supply. We currently are putting a drive on which is being taken over by Labor in the month of May, where we will ask those who are still fortunate enough to have a job to donate cash or goods so we can continue this food bank to take care of those that are so unfortunate, that would love to work.

I don't have a worker with me here today that is unemployed that would not accept a job tomorrow morning and be on the job and I am talking after we ride that bus for 14 hours to get back home.

All I can say is that if there is any way you can help us, we would appreciate that. We come down here today asking for your support, telling you that we are going to give us ours, providing we see you do something to help us. Thank you very much for letting me speak. It has been a pleasure to be here with you.

Mr. ANTHONY. Thank you very much, Mr. Watson. I think it was obvious to the members on this committee as well as the people who came with you that your testimony came from the heart and it was accepted with that sincerity, at least by this one member.

Mr. SHERMAN. Mr. Chairman, so the record is clear, the suicide rate is 30 times higher for unemployed persons than it is for any other economic section.

Mr. ANTHONY. Thank you.

Mr. Jennings?

STATEMENT OF ALAN L. JENNINGS, COORDINATOR, LEHIGH VALLEY HUMAN NEEDS COALITION, AND EMPLOYMENT PROGRAM COORDINATOR, COMMUNITY ACTION COMMITTEE OF THE LEHIGH VALLEY, INC.

Mr. JENNINGS. Thank you, Mr. Anthony. I would like to first thank the members of the subcommittee for the opportunity to bring the pleas of the unemployed of Lehigh Valley to the leader of this country.

For the past 18 months, I have been coordinating in a State-funded employment assistance program in the Allentown area, known as Lehigh Valley. The program costs the taxpayer a mere 50,000 a year and it is doing something to put the chronically unemployed in jobs.

One of my major responsibilities is to promote the program in the business community. In that capacity, I have pursued all approaches. I have met with over 110 employers in the letter, sent letters to an additional 1,400 or more areas, I have recruited support of the three-area chamber of commerce; I have sent followup phone calls to previously contacted employers, and these don't include the efforts of my two employment counselors.

Prior to the summer, when unemployment began to climb, we were putting 10 people a month in jobs in the private sector. That rate has dropped to less than 3 per month. In the past 2 months, I have sent approximately 200 letters to previously uncontacted employers. Five came back stamped "return to sender."

Otherwise, I have heard absolutely nothing. It has become exceedingly difficult as well as emotionally draining for employment counselors to tell client after client who have mostly lost some form of their Government-assisted subsistence, that the private sector on which we placed so much hope for the future is a dead behemoth. Unless the unemployed are engineers, computer technicans, the future is nothing but a nightmare.

Unemployment in the Lehigh Valley is hovering around 11 percent for 3 months now. This is in spite of assurances that the diversification of industry in our highly industrialized area will insulate us.

The only assurance I can offer is that unemployment has long surpassed that stage. Another assurance I can make is that these people will find ways to subsist however Neanderthal their approach, and we all heard the sociological answer to loss of income.

Businesses are flocking to the Sun Belt in search of cheap labor and energy. As you probably know, business failures for the first 3 months are occurring at a pace of 1932. Probably the most abhorrent aspect of this situation is the Economic Revocery Act of 1981, passed with the support of most of this Congress, will only serve to exacerbate this desperate situation.

Approximately 65 percent of the windfall tax giveaways will go to industries that have provided roughly 4 percent of the new jobs over the past 20 years. In effect, we are encouraging the proliferation of capital-intensive industry, in the face of high unemployment and are neglecting labor-intensive industry.

The promises of job-creating investments as a direct result of the tax cuts were simply a farce. What the legislation did was provide

a very favorable environment for corporate mergers and acquisitions.

Even the truly needy steel industries thanked us by buying out an oil company. Huge subsidies for the nuclear industry, big breaks for tax and oil to the tune of $100 billion over the next several years, massive allocations for the military and no breaks for the small business reinvestment spells doom.

Additionally, past Governor Thornburgh is dancing to the President's drummer, spearheading a successful drive to pull able-bodied individuals from the assistance rolls. I cannot see the reason for placing the burden on victims of our past failures.

I advocate restructing the corporate income tax, basing it on the labor intensity of the industry relative to its gross income. In other words, the more jobs provided, the less taxes paid, will substantially reduce the cost of labor, providing incentive to hire, make labor competitive with capital for once.

I hope you will give me an opportunity to expand on this. However, in the absence of such a tax system, I can't see how we can embrace the current tax giveaway without providing subsistence for the victims. I would therefore strongly urge you to make adequate funding available for income security, not only for the recently-unemployed, but if possible for those perennial victims of unemployment that I can't bring myself to face any longer.

Thank you.

[The prepared statement and letters follow:]

STATEMENT OF ALAN L. JENNINGS, EMPLOYMENT PROGRAM COORDINATOR, COMMUNITY ACTION COMMITTEE OF THE LEHIGH VALLEY, INC., MEMBER, LEHIGH VALLEY HUMAN NEEDS COALITION

For the past eighteen months I have been coordinating a state-funded employment assistance program in the Allentown-Bethlehem-Easton area of Pennsylvania, better known as the Lehigh Valley. The program costs the taxpayer a mere $50,000 per year, and is funded for the purpose of placing the chronically unemployed, or "hard-core" unemployed, into unsubsidized jobs in the private sector. One of my major responsibilities is to promote the program within the business community, that is, I solicit job openings.

In that capacity, I have actively and aggressively pursued all approaches. I have personally met with over 110 employers in the area. I have sent letters to an additional 1,400 or more employers. I have recruited the support of the three area Chambers of Commerce. I have made follow-up phone calls or sent follow-up letters to over 300 previously contacted employers. And these figures do not even include the efforts of the employment counselors.

Prior to the summer of 1981, when unemployment in the area began to climb, this program was placing nearly 10 people per month. That rate has dropped to less than three per month.

In the past 2 months I have sent approximately 200 letters out to previously uncontacted employers. Five came back to me stamped "return to sender". Otherwise, I have heard nothing.

It has become exceedingly difficult, as well as emotionally draining, for our employment counselors to tell client after client, most of whom have lost some form of their government assisted subsistence, that the private sector, on which we have placed so much hope for the future, is a dead behemoth, that there are simply no jobs. Unless the unemployed are engineers, computer technicians, or medical specialists, the future is nothing more than a nightmare.

Unemployment in the Lehigh Valley has been hovering around 11 percent for a few months. This is in spite of regional labor market analysts' assurances that the diversification of industry in our highly industrialized area will insulate us from depression-era unemployment. One assurance I can offer with confidence is that unemployment among my clientele has long surpassed that stage. Another assurance I can make is that these people will find ways to subsist, however neanderthal their

approach, and we have all heard the sociological ramifications of loss of income—increases in crime, domestic violence, alcoholism, suicide, etc.

Plant closings have reached near-epidemic proportions as part of the familiar story of business flocking to the Sun Belt in search of cheap energy and labor. As you probably know, business failures for the first three months of 1982 are occurring at a pace equal to that of 1932, the abyss of the Depression.

Probably the most abhorrent aspect of this situation is that the Economic Recovery Act of 1981, passed with the support of most of this Congress, will only serve to exacerbate this desperate situation. Approximately 65 percent of the windfall tax giveaways will go to industries that have provided roughly 4 percent of the new jobs over the past 20 years. In effect, we are encouraging the proliferation of capital-intensive industry, as opposed to labor-intensive industry. The promises of job-creating investment as a direct result of these tax cuts were a farce. What the legislation did was provide a very favorable environment for corporate mergers and acquisitions. Even the truly needy steel industry thanked us by buying out an oil company. Hugh subsidies for the nuclear industry, big breaks for oil (to the tune of $100 billion over the next several years), massive allocations for the military, and virtually no breaks for small business reinvestment spells doom for the hope of reviving lagging employment.

Additionally, Pennsylvania's Governor Thornburgh is dancing to the President's drummer, spearheading a successful drive to purge about 70,000 "able-bodied" individuals from the general assistance rolls. I simply cannot see the reasoning for placing the burden of an attempt at economic recovery on the victims of our past failures.

As an alternative, I would advocate restructuring the corporate income tax, basing it instead on the degreee of labor-intensity of an industry relative to its gross income, i.e. the more jobs provided, the less taxes paid. This would substantially reduce the cost of labor, providing incentive to hire. This would make labor competitive with capital. I hope you will give me an opportunity to expound on this.

However, in the absence of such a tax system, I can't see how we can embrace the current tax giveaway without providing subsistence for the victims. I would, therefore, strongly urge you to make adequate funding available for income security, not only for the recently unemployed but, if possible, for those perennial victims that I can't bring myself to face any longer.

COMMUNITY ACTION COMMITTEE
OF THE LEHIGH VALLEY, INC.,
Allentown, Pa.

DEAR SIR: This past Election Day the electorate ushered in a new era in American business. The business community has been given the green light to put American back on its feet again through less government intervention in the economy. Although the process of unraveling burdensome government regulation will take some time, the mood is ripe for taking action right now in the direction of a less restricted free enterprise system. This, of course, requires voluntary pursuit by business of certain goals for society. One way is by reducing the number of citizens dependent on welfare and generally by hiring the disadvantage members of our community such as minorites and unskilled people capable of working.

The Permanent Employment Program (P.E.P.) of the Community Action Committee of the Lehigh Valley, Inc is designed to expedite that process by working with local businesses in an effort to find jobs for these people and to help them get on their feet. Our organization is a private, non-profit agency and we do not collect fees for our services.

We understand that double-digit inflation as well as interest rates do not provide for a very healthy employment environment; however, we ask that as positions open up you do consider us and make us aware of the opening. In that event, please contact me at the above-captioned address or phone number. I am looking forward to having further correspondence with you.

Sincerely,

ALAN L. JENNINGS,
Employment Counselor.

COMMUNITY ACTION COMMITTEE
OF THE LEHIGH VALLEY, INC.,
Bethlehem, Pa.

DEAR SIR: As you know, elected officials in Washinton this past year passed into law the Omnibus Reconciliation Act of 1981 and the Economic Recovery Act of 1982,

budget and tax cut measures which are intended to serve as the blueprint for revitalizing the private sector, the way to economic recovery for our ailing economy.

Prior to the passing of those measures, there was a need to facilitate private sector hiring of people who are dependent on public money for their subsistence; this effort would reduce the burden on taxpayers. Today, that need is even greater. Tough times are ahead for all of us, but with an increasingly qualified labor pool in need of employment, the unskilled, low-income members of our community have little more than hopelessness in their futures.

The Community Action Committee of the Lehigh Valley, however, is trying to minimize that hopelessness through its Permanent Employment Program (please note enclosed brochure). Funded by a grant from the Pennsylvania Department of Community Affairs, PEP seeks to place the structurally unemployed into jobs in the private sector. Working with the business community, PEP encourages a form of voluntarism advocated by President Reagan, namely, recognizing the need for community commitment by making employment opportunities available to a low-income resident of our community. That person will be given an opportunity to make the climb out of poverty through the only meaningful way, a job. In addition, the community's tax burden will be reduced, and you, as the employer, will get a good worker and the sense of satisfaction that comes from making a contribution to the community. (In addition, there are tax credits available as further encouragement.)

We, of course, recognize that the employment picture is bleak. However, if you are in the enviable position of being able to hire, please do not hesitate to give us a call. Looking forward to hearing from you, I am

Sincerely,

ALAN L. JENNINGS,
Employment Program Coordinator.

COMMUNITY ACTION COMMITTEE
OF THE LEHIGH VALLEY, INC.,
Allentown, Pa., April 21, 1982.

DEAR SIR: As I am sure you are well aware, our economy in the Lehigh Valley has been steadily deteriorating. Although there are many symptoms of the deterioration, the one indicator to which the general public relates is the everincreasing unemployment rate, currently estimated to be around 11 percent. As a result of this, the labor pool is becoming increasingly qualified. For the employer (those few who are in the position to hire) this can be a lucrative position. However, for those individuals who are victims of chronic unemployment, all hope disappears.

If you recall, I contacted you over the past year to discuss the Permanent Employment Program which I coordinate for the Community Action Committee of the Lehigh Valley, Inc. Because of budget changers at both the federal and state levels, the urgency of the need to employ the "hard-core" unemployed in the private sector has intensified.

Please be reminded, then, that we are here to serve the low-income people in our community, assisting them in working their way our of the grip of poverty. If you are in the enviable position of being able to hire in the near future, please consider giving us a call. I have enclosed our brochure for your information. Thanking you in advance, I remain.

Sincerely,

ALAN L. JENNINGS
Employment Program Coordinator.

Mr. ANTHONY. Thank you, Mr. Jennings.

We have members of the subcommittee that would like to ask questions. Mr. Bailey?

Mr. BAILEY. Thank you very much, Mr. Chairman. I want to thank you and make a few remarks. I want to thank you, all of you, very, very much for a number of different reasons. Mr. Sherman, I particularly want to thank you for the reference that you made to the needs of the Vietnam veterans.

I am a cosponsor, with the chairman of this subcommittee, and these other members have helped very much with it. We are trying to make some changes to reinstate some benefits that were cut out

of the reconciliation Gramm-Latta budget—benefits for ex-service members.

We had the Secretary of Labor on the record here testifying that the reasons why the changes were made deleting benefits for ex-service members was because they need to keep people for the volunteer Army.

Incidentially, a large percentage of those soldiers are black. They do not have job opportunities or job markets available to them in many places where they come from, and it just doubles the burdens on them.

I also want to thank all of you for taking a very reasonable approach in voicing your concerns about this issue. We work very hard in this subcommittee to try to help and it feels good to have you recognize at least the efforts that we are trying to come up with on your behalf.

I have a fellow here, Ken Bowler, a brilliant draftsman, knows the law as well as anyone, or better than anyone in this country, these members of the committee here, the chairman, Dan Rostenkowski, we all work very, very hard as you know, to make some changes in that Reconciliation Act that would have led to ripples all over this country.

We tried. In that loan arrangement between State and Federal Governments, I would like to compliment those people on the record, particularly Ken, who works so darned hard on it.

The issue of turndowns, if you are from Pennsylvania, we checked that thing out and I wonder if you people have on the issue, on the issue of turndowns, that is not a Federal requirement as I understand it. Have you had any cooperation at all with the State government on your need to run around and get turned down before you qualify for benefits, like running halfway across the State?

Mr. JENNINGS. I am not familiar with anything. Most of the people I am dealing with have not been employed for years.

Mr. BAILEY. You will become familiar, I am sure, or I hope you will, some of you may be already, the issue of insured unemployment rates, another thing I think we need to talk about while we have so many people here, I think everyone is aware, of course, that the insured unemployment rate is the rate you see publicized.

Everybody realizes that. When you talk about real unemployment in the country and you talk about people coming off the rolls, you are talking about real unemployment figures that are far, far higher.

You are also talking about sectors—Mr. Jennings, I have to disagree with you on one point. I want to disagree with you respectfully. You talked about the issue addressing the concerns of labor-intensive industries. I must say to you very gently something you have to be a little cautious with is capital-intensive industries; that is, all your United Auto Workers, the vast, vast majority of them; steelworkers, the vast, vast majority of them; the mining industry, the huge and vast majority of them; railroads, the huge, vast majority of them.

When you start talking about tax changes—which for years have been prejudiced against capital-intensive industries, the reinvestments needed in plants and equipment to assure the vitality of this

Nation's industrial capacity—be very, very careful what you do when you start talking about labor-intensive industries, because labor-intensive industries—and that is a fuzzy definition when you throw those words around—let's not forget that this country, in order to be safe and secure and have an economic future, must maintain a primary productive capacity in basic industries, or we will never be secure.

Let's not forget that. That is where all of that wealth comes from, and we have had tax advantages for years in our code that have inured to the benefit of service industries sometimes, and we have had severe detriments in terms of taxation on capital that have deferred investments in capital-intensive industries.

So we have to watch, sometimes, when we throw these things around. I know you are well intentioned about it, that we don't do a little harm to the people that really need a lot of help in that regard.

I would be very happy to discuss and debate with you, believe me, any of the P's and Q's and corners of those theories and policies, because I studied them very, very carefully. I hope when we talk about those things, that we include jobs in all sectors.

Mr. JENNINGS. If I could respond real quickly to that, I guess you are right, it does depend on the definition of capital-intensive industry. I would argue that the capital-intensive industries you were naming as steel, autos, railroads, are relatively labor intensive as compared to the big technology——

Mr. BAILEY. I thought maybe there was maybe a definitional difference there.

Mr. JENNINGS. I am a strong advocate of those heavy industries and I would, at least my impression is that they are much more labor intensive than some of the industries who are doing well who are actually benefiting from the tax—the Economic Recovery Act passed this year.

Mr. BAILEY. Let me close with this, Mr. Chairman, if you will be so kind. I want to ask forgiveness of all of you for not having been here and why I have to leave. It is not that I don't care, and it is not that other members of this committee don't care.

We have been working—and I want to use this forum to explain something to all of you—we have been working very hard in the Trade Subcommittee on a little thing called the Caribbean basin initiative, maybe you have read in the papers about it?

Let me tell you something very outrageous, a point about what is being proposed by the administration. How would you like to sit back and look at a country with the unemployment we have and find that initiative is being offered by the administration that is going to cost probably 300,000 to 400,000, at the very least, American jobs?

Does that make much sense to you?

Mr. SHERMAN. None at all.

Mr. BAILEY. Duty-free entries and lowering domestic content requirements, so that you provide passthroughs for already cheap sweatshop labor in other parts of the world to the Caribbeans.

Does that make sense to you? Well, I hope you become involved in it and I hope you will bear with me, but I am going to do every-

thing I can to fight it, and if we can't win it in the committee, I am hopeful that, well, we will win on the floor.

You people have to help with that effort by starting to study this thing. Pennsylvania alone, 40,000 jobs. I cannot stay with you, I have got to get to work on it.

I want to thank all of you for giving me the opportunity to come here and explain some things to you. I want to thank you for the support that you people have provided those of us who have worked hard on this issue.

Thank you, Mr. Chairman, for being so kind with the time.

Mr. ANTHONY. The gentleman's time has expired.

We all acknowledge he is a very hard working member of not only the subcommittee but the full committee.

Mr. Matsui?

Mr. MATSUI. I would just like to thank you and Mr. Bailey for those statements and I adopt them.

Mr. ANTHONY. I have a few questions, because I think, really, what we are doing today is we are trying to debate and find exactly where the national policy is when it comes to providing for those who suddenly find themselves out of a job.

Is it a national priority and to what extent is it a national priority, or as has been explained through part of the New Federalism, is it a State responsibility and if so, how much a State responsibility?

We also heard other organizations mentioned in that, voluntarism, and when you talk about voluntarism, we talk about church, we talk about the charitable organizations, and we also talk about neighbors.

I believe Mr. Watson may have had some testimony about what self-help program you have going on now among your own community, among your own neighbors. But I would like to ask each one of you, I guess sort of a hypothetical question.

Assuming that the administration has redetermined the national policy and the national policy is no longer for the Federal Government to do it, but for a myriad of other institutions and individuals to do it, I want to see how well those institutions are responding in your particular community and your personal viewpoint?

I would like for you to explain for the record what your particular State has done or is contemplating doing through legislation that has been proposed?

Mr. Sherman, you may lead off.

Mr. SHERMAN. I would suggest to you that, first off, because of the federalism, and to put it, allegedly, off people's backs and to suggest that the State governments and volunteer workers, church, community, labor, can pick up and take over where the Federal Government has now left, is ludicrous.

You will bankrupt the State of Pennsylvania. Second, there are not enough organizations available to pick up where the Government has left off. It will be impossible. The legislation that we are asking you to pass is legislation which will not affect someone who is recently laid off. It would affect someone who is coming close to the exhaustion of their unemployment benefits.

When those benefits are exhausted, and in the State of Pennsylvania, there are 144,000 people today who no longer receive any unemployment compensation and have no jobs.

Mr. ANTHONY. Do you see any effort being made in your community by the church to propose programs to take care of those 144,000 people in some manner, to try to get them over the hump?

Mr. SHERMAN. In my community, I would say the churches, the labor organizations, the senior citizens are all trying to help out. There is just no way, absolutely no way.

Mr. ANTHONY. The burden is too large for the effort?

Mr. SHERMAN. Absolutely.

Mr. JENNINGS. If I could respond to that, Mr. Chairman, with respect to the Lehigh Valley Human Needs Coalition, we have tried exploring every possible alternative. The situation with the churches is with the high unemployment rate, you have less people sitting in the aisles who can afford to put money in the plate.

That is the simple reality of the matter. With respect to the State of Pennsylvania, as I mentioned briefly, just recently a 2-year effort was completed by the Governor to purge several thousand able-bodied people off the general assistance rolls.

I am sure you will see, and you are aware of it, as the money gets closer and closer to home, less and less priority is placed on meeting the needs of the disadvantaged. It is not politically feasible.

And that, I think, is being illustrated very clearly in the State of Pennsylvania. And as it comes closer and closer to the county level, I think we will see the same situation.

Nobody will campaign on the basis that they would like to raise taxes to feed the poor.

Mr. ANTHONY. Mr. Miller?

Mr. MILLER. There are some fine organizations, Salvation Army, other church-type organizations who will help people with their bare minimal needs, they will give you a box of food or some clothes.

But the people that I am associated with are people who are locked into a certain economic lifestyle that they are hoping the unemployment compensation will tide them over until they can get back, hopefully the economy will eventually turn around.

I don't think there is any church groups that are going to pay $300 or $400 mortgage bill for you or your car payment or anything like that.

I am sure they would if they could, but it is just an impossible task.

Mr. ANTHONY. Mr. Watson?

Mr. WATSON. As I mentioned earlier about our food bank program, that is passed through the community, the churches had it for a month, the realtors had it for a month, May will be labor's month.

We are doing that as a total community project, even though we had some outstanding retired labor leaders working at the forefront to collate it and make it work. In the whole organization, there is only one paid worker, which is paid by the county to make sure that people are checked out, that they are in need, not in need.

So, yes, we are doing something there. But I think one thing that hurt the State of Michigan is for years, for every dollar we send to Washington, we get about 68 cents of it back. When we were in high employment, our factories were running full, we were selling automobiles, that didn't bother us that bad because we could take care of our own with our own taxes at the State level.

Today, our factories are no longer running. The money is not there to take care of the State. I guess now we are asking Washington to maybe give us a hand in return. I think we have supplied parts of the other country for years. We are not complaining about that.

We felt happy that we could do that, because when our workers were paying it in, they were living well. We like to give back, to be honest with you. We would rather send you the money than you send it to us.

Because we are sending it to you a lot better off. But that has been a problem in Michigan. Now, like I say, our State is virtually on the brink of being bankrupt. I think that there is some legislation that if it does not take place immediately, someone will have to find out what happens when a State goes bankrupt.

We don't want to prove that point. We would like jobs. We would like to be able to send our money. We would like to return to Washington in the near future as tourists, not unemployed auto workers so we can visit you and say thanks a billion, you bailed us out.

As long as I am speaking, I want to ask my delegation to leave quietly, we have got other things to do. We are all new in town. It is a pleasure to be here with you and we sure appreciate the chance to be here and share a few minutes with you today.

Thank you very much.

Mr. ANTHONY. Thank you very much. I hope when you do return as tourists, you will be fully employed. The costs here are high. If I hear you correctly, and I think it is the point that needs to be made. You are saying human capital is as important as other capital, machinery plant and equipment, if we neglect our human capital, we really don't have the type of society we all want to participate in.

I think that message has been made very clear to the members of this committee. I thank you for coming in here and giving your testimony. You are articulate, forceful, but polite.

I would also give my thanks to the audience. I thought that you also behaved in a very exemplary manner here. We are trying to be as lenient as we possibly could to let you vent the frustrations we know that you brought here.

We just pledged that we will work with you, will seek the difficult solutions to the fact that we all know we want the recession to end.

We all want full employment, so we can all enjoy the good things in life. We will work with you and we appreciate your testimony.

Our next panel is the National Council of State Child Support Enforcement Administrators.

Barry Fredrickson, assistant commissioner, child support enforcement, State of Texas.

Samuel G. Ashdown, director, office of child support enforcement, State of Florida

Susan C. Jeffries, chief child support enforcement section, State of North Carolina.

California District Attorneys' Family Support Council and National Reciprocal and Family Support Council: Michael E. Barber, legislative liaison, supervising deputy district attorney, Sacramento County, Calif.

Mr. Matsui, I yield.

Mr. MATSUI. I would like to welcome all of the members of the panel, particularly my good friend Mike Barber. He has been a member of the district attorney's office for the past 15 or 16 years. We were in a number of social and civic activities together.

He has been very helpful to me in providing critical information. The most recent was when legislation was signed last year that would make child support payments nondischargeable in the event of bankruptcy. He was instrumental in calling that to our attention. We were successful in getting that passed and, according to the HHS that will save the Federal Government $140 million a year.

Mr. ANTHONY. The entire panel is welcome. I will say you are testifying in front of a friend today. I spent 10 years prior to coming to Congress as the prosecuting attorney who had jurisdiction over one county for 4 years and five counties for 6 years. I participated in many child support cases. I will be interested in hearing your suggestions and we will start off with Mr. Fredrickson.

Mr. FREDRICKSON. With your approval, we would like to change the order to Ms. Jeffries speaking first and myself second and then Mr. Ashdown next.

Mr. ANTHONY. There being no objection, the Chair recognizes Ms. Jeffries.

STATEMENT OF SUSAN C. JEFFRIES, CHIEF, CHILD SUPPORT ENFORCEMENT, STATE OF NORTH CAROLINA, ON BEHALF OF THE NATIONAL COUNCIL OF STATE CHILD SUPPORT ENFORCEMENT ADMINISTRATORS

Ms. JEFFRIES. My name is Susan Jeffries, and I am director of the child support enforcement program in the State of North Carolina. I am also secretary of the National Reciprocal Family Support Enforcement Association and member of the board of directors of the North Carolina Child Support Council.

It is a pleasure to have the opportunity to be here this morning.

I want to talk with you briefly about our concerns regarding a proposal from the Department of Health and Human Services to cut Federal funding to this highly successful child support enforcement program.

This program was created in 1975 for insuring that responsible parents support their children.

As you know, between 80 and 90 percent of all families who receive AFDC are eligible because one parent has deserted the family and is not providing the necessary financial support.

The child support enforcement program, with its current 75 percent Federal funding and 15 percent incentive rate, has enabled

States to legally establish paternity for thousands of children born out of wedlock and collect over $6 billion of child support at a cost of $2 billion.

Money collected on behalf of children who receive AFDC is recouped against the AFDC payment and therefore reduces the Federal and State welfare burden.

Enforcement and collection of child support for children who do not receive AFDC has kept thousands of families off the welfare rolls, therefore, funds spent for the non-AFDC part of this program represent a good investment in welfare dependency prevention.

I believe that all of us share the goal of reducing dependency on welfare in this country. I feel that we would be making a very costly mistake to reduce Federal funding and support of a program which has been so successful in accomplishing this goal.

Health and Human Services proposes to replace the current level of funding with a formula that forces States to fund the child support enforcement program directly out of support collections made for the AFDC families.

This means no funding would be available to establish paternity or enforce and collect child support for non-AFDC families. The result of this will be that States will drastically reduce or cease providing services to these families, many of whom are just above the poverty level.

Welfare dependency will increase as there will be little means for these families to obtain the child support their children are entitled to receive from the other parent.

This program is unique in that it does recover a substantial portion of its administrative costs. It more than pays its own way on the State level through welfare recoupment, therefore reducing the tax burden on the taxpayer.

What we must recognize is that in addition to reducing the tax burden and obtaining financial benefits, it achieves social goals such as establishing paternity for children and increasing a sense of parental responsibility.

Although it is difficult to measure the total dollars avoided in welfare costs because of child support collected through this program and paid to non-AFDC families, it is obvious that this program has had a substantial impact on AFDC cost avoidance.

In computing the Federal investment in and return from this program, HHS has considered program expenditures for non-AFDC cases as well as AFDC cases. But on the return side, they are only considering the dollars recouped from AFDC collections.

When you consider the value of keeping thousands of families off of welfare, you can see that this program is not losing money at all, as HHS states. But in a very real sense it is one of the best investments Congress can make in welfare avoidance.

I ask for your help in insuring that we do not increase welfare dependency by cutting the program which has prevented much of that dependency. Thank you.

Mr. ANTHONY. Would you like to follow up, Mr. Fredrickson?

STATEMENT OF BARRY FREDRICKSON, ASSISTANT COMMISSIONER, CHILD SUPPORT ENFORCEMENT, STATE OF TEXAS, ON BEHALF OF THE NATIONAL COUNCIL OF STATE CHILD SUPPORT ENFORCEMENT ADMINISTRATORS

Mr. FREDRICKSON. I would like to make a few points to the committee about the administration's proposal.

First of all, if you look at the time that the program went in and the AFDC rolls and activities that occurred you will find a downward trend.

To you in a monetary sense that is less Federal dollars being spent and less burden on the taxpayer. To the individuals on AFDC, it means retaining some dignity by support on their own or support by the absent parent who was the parent for the children and places the burden where it should be.

The administration's proposal encourages welfare rolls. You will see an increase because the existence of a State program depends upon the collection of the AFDC, not a denial of those cases.

Last year in Texas we denied cases that medicaid benefits and AFDC benefits amounted to over $16 million.

We collected around $9 million in AFDC collections. That cost was $11 million.

If the administration's proposal goes into effect, the Texas program and several other States will be cut by 50 percent at a savings of aproximately $3 or $4 million in Federal funds. It will cost the Government in fact somewhere around the $20 million mark. It is really false economy.

The non-AFDC program which is primarily designed by Congress to help those that are near the poverty level or just above it was simply not spoken to. The result will be you have a program that is legislated, not funded. It is very difficult to administer any program where funds are not available.

Currently there are some pieces of legislation in proposal state that must pass and even then we can probably only recoup 50 percent of our costs.

One of the benefits of the child support program has been the cooperation among States. Therefore a person cannot flee from State to State to avoid his responsibility. We will get no incentive or money to pay for these cases.

Going back to the fact of trying to accomplish what needs to be done for any State you will work your own cases.

Last of all, we have been able to accomplish some very good things in the area of establishment of paternity. Paternity cases are extremely expensive. The amount of funds you can retain from this in order to operate your program are very limited. These cases will also be reduced.

In short, the administrative proposal is one that is going to ruin a highly successful program that is a benefit in terms of human services and certainly a benefit of dollars back to the Federal Government in reducing the burden of taxpayers.

Thank you.

STATEMENT OF SAMUEL G. ASHDOWN, JR., DIRECTOR, OFFICE OF CHILD SUPPORT ENFORCEMENT, STATE OF FLORIDA, ON BEHALF OF THE NATIONAL COUNCIL OF STATE CHILD SUPPORT ENFORCEMENT ADMINISTRATORS

Mr. ASHDOWN. My name is Sam Ashdown. I am representing the Florida Family Support Council as well as the National Council of Child Support Enforcement Administrators.

I am also the national treasurer of the National Reciprocal and Family Support Enforcement Association.

I would like to point out to Mr. Ford that I serve on the national board, along with a distinguished individual from his county, the Honorable Judge Kenneth Turner, judge of Shelby County Juvenile Court.

I echo the concerns of my colleagues here today about the administration's proposals for restructuring the child support enforcement program.

We feel they are well intended, but not well thought out.

We are also suffering under a handicap in that we have not actually seen the administration's proposals. We have only heard about them from staff and we have some idea of what is being proposed.

But when they were proposed by the administration in early February, they were alluded to and we were informed the actual detail would be coming very soon.

They have not yet arrived.

We are concerned that the administration's goals will be achieved at the expense of the program. It will be penny wise and pound foolish.

The program may need some fine tuning but it does not need radical surgery.

As Judge Turner said, if it is not broke, don't fix it. Actually we feel that there may not be a deficit at all as projected by the Federal child support office because they have grossly underestimated the impact of the IRS intercept program.

We will not know for a few more months what impact that will actually be, but we think that it will erase the deficit both for this fiscal year and next fiscal year.

As my colleagues have stated, we feel that the Federal proposal will cause the States to concentrate on enforcement of child support in those cases where the mother and father and children are on AFDC in the State. That will, of course, return to that State the highest or most favorable dollar amount of Federal and State dollars. However, this will cause a reduction in emphasis on establishing paternity of AFDC children on interstate cooperation and on cost avoidance through the non-AFDC program.

I might point out in Florida that 20 percent of the AFDC money that we collect is sent to other States because the absent parents live in Florida and we are sending money to the other States because that is where the families are. With references to cost avoidance, the State of Florida recently conducted a statistically reliable sampling of non-AFDC child support cases that had a prior AFDC history.

Although the total Florida non-AFDC caseload is less than 5,000 cases, it was determined that a minimum of $4.8 million in AFDC

and medicaid costs would be avoided in state fiscal year 1982 that ends this June 30.

I want to stress that this figure is a base, and irrefutable floor amount. The actual cost avoidance is much, much higher but difficult to capture in a statistically reliable manner.

The Federal Office of Child Support has been repeatedly requested, since 1978, to develop methodologies on the cost avoidance nature of the non-AFDC child support program. They have no qualms about lumping in the costs of the non-AFDC child support program in their reports, but so far they have not developed a way to give the States credit for the cost avoidance aspects of the non-AFDC child support enforcement program.

The States are greatly concerned about costs also. I want to bring to your attention a growing concern shared by many States about the unemployment compensation intercept program mandated by section 2335 of 9735, the Omnibus Budget Reconciliation Act of 1981.

This section is well intended and patterned after the IRS intercept program. However, the similarity stops there.

It was not set up to operate in the same efficient manner.

As you know, benefits vary greatly from State to State. While it might be cost effective in some States, it most definitely will not be cost effective in other States.

This program should be made optional to the States. If, based on a showing that it will cost the Federal Government and States more to operate than it can possibly be recovered, it should not be implemented.

As an example, the benefit period of Florida is 26 weeks. The actual average period of unemployment compensation paid is only 13 weeks. The average amount of the actual unemployment check being paid is only $80. By the time we get around to getting these intercepted, we are afraid that the costs will far exceed the benefits gained through the program.

I might point out that the title IV-D program also has to pay back the employment security agency for the costs they incur in this cooperative effort.

Please have your staff look at this well intended but potentially costly program and make it optional for the States. It is required to be mandated in every State by October 1 of this year.

Thank you, Mr. Chairman.

[The combined statement of Mr. Ashdown, Mr. Fredrickson, and Ms. Jeffries follows:]

COMBINED STATEMENT OF SAMUEL G. ASHDOWN, JR., FLORIDA, BARRY FREDRICKSON, TEXAS, AND SUSAN C. JEFFRIES, NORTH CAROLINA, ON BEHALF OF THE NATIONAL COUNCIL OF STATE CHILD SUPPORT ENFORCEMENT ADMINISTRATORS

SUMMARY

Introduction.—The National Council of State Child Support Enforcement Administrators is an organization of state officials responsible for Child Support Enforcement (CSE). founded to provide a national forum to promote, develop, and review matters affecting CSE, including the communication and resolution of common problems. Our desire in this forum today is to relay some of our concerns with a budget reduction proposal that is or soon will be before this committee.

History.—Over the last thirty years a trend has developed which has permitted many irresponsible parents to disregard their financial responsibilities to their children. As welfare roles skyrocketed, social planners became very concerned with the root causes of AFDC dependency, 80 percent of which was and is due to the absence of child support payments. Congress finally moved in 1975 to combat this situation and title IV–D of the Social Security Act was made law.

In the six years the program has been in existence, major success has occurred:

$6 billion has been collected at a cost of $2 billion.

Millions of dollars in welfare expenditures have been avoided as a result of the Non-AFDC, CSE program; $244 million last year.

Paternity has been established for hundreds of thousands of children.

A national network of CSE agencies has been established in the various states, working together to insure havens are not established for the errant parent.

Future prospects.—The Office of Child Support Enforcement has apparently been required to reduce their fiscal year 1982 budget by $25 million and fiscal year 1983 by $100 million. To do this they have created a Restructuring Proposal or "formula" to determine state funding. The Secretary of H.H.S. would have authority to change this formula every two years if deemed necessary.

This proposal will affect states' CSE programs in various ways; it will spell doom for some, drastic curtailment in others, and for a few increased profits.

Some major problems with this approach are:

The proposal provides absolutely no incentive for interstate enforcement work.

The high cost but socially valuable work being done establishing paternity will be seriously set back.

Collections made for Non-AFDC cases are not counted, however, costs are. With no recognition for the cost avoiding aspects of this program, states will make cutbacks. The result will be less child support paid and more individuals on assistance.

The profit motive and the enforcement concept now part of the program will be replaced by a formula that is totally driven by collections.

Conclusion.—We believe the entire program is on the verge of national success, comprehensive new laws have been passed in the past 18 months. We would ask that they be given time to work. We do not believe the $100 million savings is prudent in the face of the progress that has been made. If laws are passed, we suggest national wage assignment laws which would give this nation far more than the $100 million needed. Incorporation of administrative processes nationwide would save over $200 million. In summary, given more resources we will deliver many times the $100 million now needed.

STATEMENT

Introduction.—Mr. Samuel G. Ashdown, Jr., Mr. Barry Fredrickson, and Ms. Susan Jeffries are appearing before the House Committee on Ways and Means, Subcommittee on Public Assistance, to express the views of the National Council of State Child Suppport Enforcement Administrators, in relation to the fiscal year 1983 Administration budget proposal as if affects Child Support Enforcement. Mr. Ashdown is the Director of the Florida Office of Child Support Enforcement. Mr. Fredrickson is Assistant Commissioner for the Texas Department of Human Resources, in charge of the Child Support Enforcement Branch. Ms. Jeffries is Director of Child Support Enforcement for the North Carolina Department of Human Resources.

The National Council of State Child Support Enforcement Administrators.—is an organization which promotes the development of legislation or policies that will have positive impact upon the Title IV-D Child Support Enforcement Program. It is also an organization which is concerned with interstate and international relationships in the enforcement of child support obligations. Finally, the National Council provides a forum and structure to be used for communication and resolution of common problems and to act as a unified body for representation in matters of national concern.

The National Council is composed of representatives of each state and the territories within the United States. Each of the 54 jurisdictions maintains membership. (A listing of these representatives may be procurred by written request to the National Council.) The membership has been canvassed and each has had an opportunity to express its views in the matter before the committee.

There is consensus from the membership that the views expressed herein are accurate representations of the concerns jurisdictions hold with the basic tenets of the restructuring proposal contained in the fiscal year 1983 Administration budget rec-

ommendations as they relate to future funding to the states for Child Support Enforcement activity.

History of child support enforcement.—The history and evolution of the Child Support Enforcement program has taken many years to unfold. The dynamics can be traced back to the changing social and economic factors of our nation and its people.

At its roots the question must be asked, whose obligation is it to support children? Common law seemingly failed to impose on the father a civil obligation to support his child(ren). For example: As late as 1953, the Supreme Court of New Jersey had difficulty finding a legally enforceable support obligation which bound the father to his child(ren). The need was so basic—but the remedy only referenced "natural law."

Viewed as a state and local problem for many years, Federal attention was attracted to this area of law as costs in the Aid to Families with Dependent. Children (AFDC) program continued to escalate. Inadequate laws were producing low returns of child support collections while 70–80 percent of those receiving AFDC assistance were eligible due to the nonpayment of child support obligations. Aggravating this neglect was the ideological dislike of support enforcement that sprang from a spreading notion that the state, rather than the absent father, should support abandoned children by means of the AFDC program.

Senator Russell Long, then Chairman of the Senate Finance Committee, and Representative Griffith, then Chairwoman of the Committee on Fiscal Policy of the Joint Economic Committee, developed and published a thoughtful analysis of the welfare system. Both were dedicated to the cause of comprehensive child support enforcement practices. The states' failure necessitated national action to establish umbrella enforcement laws. Congress finally moved to strengthen the enforcement of child support obligations and thereby sought to reduce the cost of AFDC benefits. Effective August 1, 1975, sweeping amendments changed the AFDC title of the Social Security Act and a new Child Support Title (IV–D) was added. During the intervening years nationwide enforcement has been initiated, and while the cost of the AFDC program has continued to grow, most practitioners in the field and studies of the program indicate that the growth would have been substantially greater without the cost-avoiding effects of the Child Support Enforcement program.

Since the late 1950's, the AFDC program growth rate has increased every year. That growth is directly attributable to the escalating incidence of divorce, marital separation and out-of-wedlock births. The custodial parent, usually the mother, is faced with a financial crisis and seeks financial assistance through governmental outlets. Since most potential AFDC clients enter the work force at or below the minimum wage level, they often find their incomes insufficient to meet ordinary houshold expenses, not including day care, clothing and transportation expenses attributable to working. Often times the burdens of daily work, the responsibility of being the only decision maker in the household and having the complete responsibility for raising the children, overwhelms the custodial parent. These factors, coupled with the lack of financial support from the absent parent, places the custodial parent in a position of financial dependency upon governmental programs.

The incredible growth in AFDC expenditures of over 20 times in 22 years has had a significant impact on all of us. Numerous debates have ensued as to whether it is society's responsibility to support these families and the issue has never been resolved. Most Americans believe, however, that it is a worthwile cause to extend help to needy children. At the same time, they feel that government has an obligation to minimize the taxpayer burden that results from aid programs.

At present, national estimates indicate one out of every three marriages in the United States ends in divorce. There appears to be a direct correlation between the increasing divorce rate and the increase in the number of welfare families with a single parent heading the household. In fact, 78 percent of all welfare households in this country consist of a single parent, generally a woman, attempting to support her children in large part (95 percent) because the husband or father has absented himself and withdrawn his financial support from the family. The woman, in an attempt to support her children without the income of the husband, has usually applied in desperation to the state welfare office requesting assistance for herself and the children. In other words, when fathers default and avoid their parental responsibilities, the chance of their children being supported by a governmental aid program is much higher. Before going on, it should be pointed out that there are a large number of absent parents that are responsible for making all of their child support payments. Many of these absent parents do make regular, child support payments. In these cases normal visitation rights are generally exercised and the children can share a relationship with both parents. A multitude of problems are avoided when the separated parents maintain a non-hostile relationship. This is

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usually possible only when the custodial parent receives regular financial support from the absent parent.

How serious is this problem of non-support of families by irresponsible parents? Over 7 million children are presently receiving public assistance in the United States through the various state welfare programs, which are generally funded over 50 percent by the Federal government. Of even greater concern is the possibility that the very existence of the welfare program has caused some of these fathers to conclude that if they have marital difficulties, they need not worry about the consequences of leaving their families because the government will provide assistance while they go out and establish new lifestyles, and perhaps father other children. This situation is economically unacceptable, and we must find a solution which will eliminate or a least significantly reduce the problem.

There is another significant factor which has contributed to the increased growth of the welfare program (AFDC). That factor is the number of children born out of wedlock. According to statistics maintained by the National Health Center there were, in 1979, an estimated 597,800 out-of-wedlock babies born in America, accounting for approximately 17 percent of all births. This is more striking when compared to statistics of a decade ago. In 1970, unwed mothers had 399,000 babies, 10.7 percent of all births for that year. The 50 percent increase in illegitimacy stems at least in part, from the current lack of stigma associated with out-of-wedlock births. It was thought that the increased accessibility to contraceptives and abortions would curtail the out-of-wedlock birth trend. However, there are 6.4 million more women of childbearing age in the United States now than 10 years ago, an increase of 4 percent. At the same time, childbearing by unmarried women increased 6.1 percent. The Urban Institute of Washington, D.C. clearly indicates that the propensity for unwed mothers to keep and raise out-of-wedlock children is rising. The Office of Child Support Enforcement reports that the stunning increase in the non-marital birth rate has brought a corresponding increase in the cost of AFDC funding. More and more the mothers of these children refuse to marry the natural fathers, and when postnatal marriage does occur, at least one in three will subsequently end in divorce. With the father absent from the home, the burden of support shifts to government sponsored programs paid for by tax revenues from various sources.

Census figures indicate that there are over 46 million families in the United States of America that are not receiving welfare. Every one of those families is being asked to bear a part of the support burden for these 7 million children who are receiving welfare. The absent parent may be quite capable of providing the needed support for his children. However, he has usually defaulted on his obligation of his own volition and withhold his support.

In the early stages of the welfare program, little was done by Congress or the states to recoup the welfare dollars expended. Over the years, policy statements were made in which the intent to recover monies expended was defined, but there was very little interest by the states in setting up programs to recoup those monies. The apparent reason for this reluctance was that the cost of setting up a recovery program seemed prohibitive. As a result of this lack of action, many abent parents became remiss in their obligation to support their children and were, for a considerable period of time, not made to bear the costs of supporting their children. Society simply "picked up the tab," but the tab has become incredible. In 1956, the total cash benefits expended in assistance to children was just over $617 million.

By 1979, 22 years later, that figure increased to an astounding $12 billion annually. As staggering as that figure sounds, it is not all-inclusive. Additional billions were spent on food stamps and medicaid. Two questions need to be addressed: "Why should taxpayers be required to bear the costs of supporting the children of the financially capable, but irresponsible parent?" and "How do we reverse this irresponsible pattern established by absent parents?"

Federal participation in child support began in 1975 with the enactment of Title IV-D of the Social Security Act (P.L. 93-647). Maintaining a child support program became an individual state eligibility requirement to receive federal match grant funding in the AFDC Program. Federal financial participation was provided for 75 percent of the administrative costs of running the child support program. The remaining 25 percent would be provided by the state and/or local government.

There are two types of collections and disbursements involved with the child support program. Both facets of this program are mandatory and all states participate in both to widely varying degrees. First, collections are made for individuals receiving AFDC which are distributed back to the state and federal governments for subsequent disbursement to be applied against AFDC costs. These collections are distributed between the two based upon the matching grant rate which the federal government provided to each state's public assistance program. This rate varies be-

tween states, and ranges from a 50/50 to 77/23 federal/state split. Second, collections are made for individuals who are not receiving AFDC. These are sent directly to the custodial parent. Neither the state nor the federal government receives any portion of these collections, but the collections significantly reduce the potential for AFDC eligibility in many cases. We have been told that in the Sixth Annual Report to the Congress, the statement is made that $244 million in cost avoidance has been saved through the Non-AFDC support enforcement programs by the Department of Health and Human Services, Office of Child Support Enforcement.

To encourage cooperation between the various states and political jurisdictions the federal government has also provided for a 15 percent incentive payment on AFDC collections made by one jurisdiction for another. This 15 percent was taken out of the federal share of collections. In addition to establishing standards for child support unit operations, the nationally based Office of Child Support Enforcement has promulgated regulations covering the maintenance of case records, the establishment of paternity, the locating of absent parents, the enforcement of support, and the use of cooperative agreements among the states. The operation of the program is left to the state child support units which are required to function within the parameters of local law; some under state statute, others under county prerogatives.

In 1980, $603 million was recovered from the parents of children receiving AFDC. While this recovery effort represents a step in the right direction, many barriers still exist which prohibit effective and efficient child support collections. The problem has primarily been one of a lack of laws to deal with the 30–50 percent of absent parents who cross state lines to avoid payment of support. Nationally, only 11.3 percent of the absent parents whose children receive AFDC are actually paying child support. If that 11.3 percent average could be doubled, the total amount recovered would be nearly $1.2 billion per year. Reliable data now exists which indicates that the figure can be doubled. A number of states are already receiving payments on over 20 percent of their cases.

As the program has grown there is no doubt that the Federal matching of 75 percent and financial incentives of 15 percent have assisted states and jurisdictions to launch programs which are curtailing the growth rate of AFDC. This is particularly true in low grant states, where thousands are removed from the ADFC roles monthly as a direct result of child support enforcement efforts. Other elements, such as the establishment of paternity and interstate cooperation, are also beginning to receive the attention they deserve. These accomplishments demonstrate that continued support at the national level will result in future growth and success in the program.

The most current published information demonstrates the effectiveness of the program. This data has been extracted from the 5th Annual Report to Congress, published by the Department of Health and Human Services, Office of Child Support Enforement. The primary areas of focus used in this exhibit are examples of the positive financial and social impacts upon the population, particularly the children of the nation.

[Dollars in millions]

	Total child support	AFDC collection	Non-AFDC collection	Paternity establishments
1976	$512	$204	$308	14,706
1977	864	423	441	68,263
1978	1,048	472	576	110,714
1979	1,333	597	737	117,402
1980	1,478	603	875	144,467

It is worthwhile to note that funds collected in the Non-AFDC category are refunded directly to families not on public assistance. It is estimated that of these families, 22 percent or more would be on public assistance if the ocllection service were not in place. This translates into a substantial savings in AFDC, food stamp, and medical assistance expenditures and is part of the basis for the estimate that $244 million was saved last year through these efforts.

The AFDC collections are distributed back to the state and federal governments in proportion to the AFDC participation rates. These monies help to offset the direct

costs of the public assistance programs. The growth of the return has been 296 percent from 1976 to 1980.

Given the dramatic rise of illegitimate births in the nation, it is becoming increasingly important to establish paternity for as many children as possible. The success in this program helps children in many ways. Establishing paternity for children, that is, legally identifying the father, helps to eliminate the stigma associated with lack of paternity. It also establishes potential social security and veteran's benefits and potential inheritance rights. Since the first year of the Title IV-D program, the increase of 982 percent in this area sevices as an excellent example of the programs long range impact to society.

Future prospects.—With a description of the history and successes of the Child Support program having been given, the issue at hand is the financial restructuring proposal currenty being advocated byt he Administration in their 1983 budget proposal.

The financial restructuring proposal, as it is understood at this time by this organization, is a drastic departure from the funding base that has helped us achieve the current measure of success. We believe that the inroads that have been made to further enhance the program will be in serious jeopardy should the restructuring proposal be adopted.

The current Federal Financial Participation (FFP) rate allows for 75 percent federal reimbursement for costs incurred in the efforts to collect child support by the state or local government whether intra- or interstate.

In addition to the 75 percent FFP, the Congress has seen the need to create an incentive program for counties and states for having aggressive collection programs. In this scheme, a state or county can receive an additional 15 percent incentive payment for funds collected in AFDC child support cases. The 15 percent comes from the federal share of the AFDC monies distributed back to the programs. One outstanding feature of this funding program has been a rapidly increasing degree of cooperation among states and counties, i.e., a "profit motive." For example, if an absent parent resides in a state other than that of the children (who are on AFDC or the Non-AFDC Child Support Enforcement program), the state having jurisdiction over the absent parent and making the collection receives 15 percent of the gross collection amount and 75 percent FFP for the effort. The state referring the case receives the share of AFDC FFP funds, and the federal government receives its portion. Therefore, the reciprocity taking place among jurisdictions is positive. The state doing the actual enforcement action can generally afford to allocate sufficient resources to maintain a successful program and also handle the referral work from other states.

The current financial system has also stimulated states to implement effective programs. While federal legislation has played an important role, states have initiated and passed many laws in support of the program. In fact, more legislation has been passed in the last 18 months in support of the child support concept than ever before in the history of the nation.

State Legislatures have recognized the social and monetary benefits of strong programs. In part, state and county participation has been engendered through the current funding mechanism.

As practitioners in the field we are concerned that the proposed restructuring of the program will undermine many of the accomplishments experienced first six years. While we are all concerned with reducing the federal deficits the nation is experiencing, the short-term savings of $25 million in fiscal year 82 and $100 million in fiscal year 83 are devasting to a program that is doing something about the root cause of the AFDC program—Lack of Child Support. According to figures from the Office of Child Support Enforcement, over 80 percent of the reason for AFDC assistance is that families receive insufficient, or on child support.

As currently constituted, based upon information we have received, the restructuring proposal consists of a formula concept of funding wherein the states will operate their total programs out of collections and the Federal government will share in the profits or losses of that state operation. The Federal government would also provide incentives for states who, based on certain criteria, "improved their effectiveness and efficiency on an annual basis." The result of this proposal would be the elimination of the current 75 percent FFP and the 15 percent states now receives of AFDC collections. Also a very significant point is the fact that the Secretary of HHS can change the formula every two years as deemed appropriate.

The proposal presently consists of a two-tier approach to Federal funding. Tier I compares collections of a jurisdiction to the costs incurred. Total AFDC collections (after payments to families, refunds, etc.), less expenditures for both AFDC and Non-AFDC results in "net profit." After that, distribution of net profit is made

(FMAP Split). This split varies from state to state depending on the match rate of AFDC and Medicaid. Operatons will be funded using this "profit" in addition to the incentive money available from Tier II (described below).

Also, we have been told that loans will be available from the Federal Government to begin this program July 1, 1982.

Tier II is concerned with incentives to states. Incentives will be paid based upon two criteria: (1) Total AFDC collections increased during the year and, (2) Cost effectiveness improvement during the year. The first element of Tier II specifies that a 5% incentive will be given to those states showing a collections increase between that minimially expected (3-5%) and the national average of about 13 percent. Or, a 10 percent incentive will be given to those states showing a collection increase above the national average.

In the second element of Tier II, demonstrated cost effectiveness will provide for a 5% incentive to be given to those states with a cost effectiveness ratio greater than 1 to 1. Or, a 10 percent incentive will be given those states with a cost effectiveness ratio equal to or greater than the national average. Or, a 15 percent incentive will be given to those states with a cost effectiveness ratio over two to one.

Incentives will vary from year to year, depending on national averages, changing of the base year, and the Secretary of Health and Human Services' perception of needs for the program. Incentive payments are based on total AFDC collections noted in Tier I of the proposal.

Minimally, the impact upon the various states' programs wold spell the demise for some, drastic curtailment in the effectiveness of others, and for a few, increased profits.

Some of the problems that we foresee with this restructuring are:

(1) The proposal provides no incentive for states and jurisdictions to perform interstate enforcement work. Therefore, it is presumed that this aspect of the Child Support Enforcement program would almost completely terminate. The results would be havens where irresponsible absent parents could avoid their child support obligations. Many of these absent parents are highly mobile and would have little difficulty in relocating to avoid support payments. In many cases this could be accomplished simple by crossing state boundaries, even within the same city. Even with the present funding system there are problems with the interstate reciprocity. The proposal serves to exacerbate this situation.

(2) The efforts towards establishment of paternity will undoubtedly suffer under the restructuring proposals. Paternity cases often involve protracted court involvement and are generally not "economical" to work. The formula allows no latitude for the difficulty and expenses of these cases. Given the statistical data previously mentioned (17 percent of the nation's births are "out of wedlock"), the social and economoic good provided would be critically impaired.

(3) The Non-AFDC support enforcement program would be seriously set back. While the proposed formula does consider the costs of administering this portion of the program, none of the collections or the avoided costs (by diversion from the AFDC public assistance program) are considered or rewarded. With no recognition of the positive impacts of this portion of the program, many states would be under financial constraint to retreat from this effort. The cost avoiding nature of the program would deteriorate, resulting in an escalation of the AFDC rolls. To compound this problem, the recent cutbacks in AFDC funding of the "30 and ⅓" working mothers incentive program, the 150 percent cap, and other measures, have made former AFDC recipients reliant on this program in the hope of getting the child support they are due. Thus, their desperation may be compounded because there may not be a helping source for the collection of child support, the obvious result being their return to the AFDC rolls!

(4) The Federal government has assumed, erroneously in our opinion, that the program will remain at the current level in spite of the restructuring proposal and, therefore, the $100 million will be saved. Numerous discussions and letters from actual practitioners in the field seriously challenge this assumption. Many states indicate they will almost be put out of business by the new funding approach. What now is a statewide enforcement program may become little more than a skeleton crew at a State office trying to assume a responsibility formerly handled by many more trained staff. The reason for this impact is that many counties will withdraw from the program when there is no longer a financial incentive to do the work. The Federal government has failed to adequately take into consideration the profit motive that the states and counties have had in the development of this program. With this profit motive eliminated, or more accurately, made very obscure, many of the jurisdictions who contract with their counties for child support enforcement will

drastically cut back their efforts unless the state guarantees to hold them harmless. Most states cannot afford to do this.

CONCLUSION

Considering the relatively short life of the Child Support Enforcement program (six years), much progress has been made. It seems incredible to the practitioners at the state level that a program which has returned over $6 billion at a cost of $2 billion should be the target for budget cuts. The program is making significant strides toward restoration of financial responsibility among absent parents. In 1975, this concept was highly hypothetical. Today it is becoming a reality. Over the years the states and Federal government has been in partnership in passing legislation and developing programs directed to achieve this goal.

The program, both on the national and state levels, is on the threshold of astounding success. To avoid expending $100 million in one year (Fiscal Year 1983) sounds very appealing. It is our belief, however, that closer scrutiny will reveal that this is a shallow and short-sighted approach. The adage, "If it isn't broken, don't fix it," applies to this situation.

The National Council of Child Support Enforcement Administrators believes that the proposed financial restructuring of the Child Support Enforcement program should be rejected. Your favorable consideration to allow the current structure to remain in place will insure continued growth of this socially and financially responsible program. We would encourage the passage of laws which will be beneficial to the program and restoration of an ethic that children should be supported by their parents, not the government. To this end a national wage assignment law is recommended. This type of legislation, already law in a number of states, would yield over $100 million. The courts are also inundated with civil child support related matters, when the truth of the situation is that these matters could be handled in most instances very adequately through an administrative process which assures appeal to a judicial court in the case of dissatisfaction with the administrative ruling. This process nationwide would save over $200 million. This process has been incorporated by fourteen states. In summary given more resources we will deliver many times the $100 million needed.

STATEMENT OF MICHAEL E. BARBER, LEGISLATIVE LIAISON, SUPERVISING DEPUTY DISTRICT ATTORNEY, SACRAMENTO COUNTY, CALIF., ON BEHALF OF CALIFORNIA DISTRICT ATTORNEY'S FAMILY SUPPORT COUNCIL, AND THE NATIONAL RECIPROCAL AND FAMILY SUPPORT ENFORCEMENT ASSOCIATION

Mr. BARBER. I want to thank Mr. Matsui for those very kind words, even though he is not here. Without his quick grasp of the problem and his stubborn persistence, we would not have gotten the repeal of the Bankruptcy Act section that he obtained.

I think it should be stated on the record that it was his hard work as I am sure it is known to all of the Congressmen that he got to vote with him, that it was his hard work that saved the sums that he alluded to.

I feel fortunate to be represented by Bob, who is quick to listen and willing to keep fighting.

The organizations I am appearing on behalf of thank you for this opportunity to present our objection to the administration's restructuring plan for child support.

I am Michael E. Barber, a deputy district attorney in Sacramento, and a member of the governing boards of California District Attorneys Family Support Council and its counterpart NRFSEA.

These organizations are responsible or are open to membership by the individuals who do the support enforcement work throughout the Nation.

It is their position as represented by the enclosed resolution and other material that the administration proposal is unsound and ought to be rejected.

It is our position that the present funding structure, as in effect prior to October 1, 1981, ought to be retained. You have already heard considerable testimony about how the program is working and working effectively.

My written testimony develops that point further. The 1980 figures show that there is a taxpayer dividend in child support enforcement of $150 million and cost avoidance I would submit that far and away exceeds that.

I have a number of examples set forth, from Oregon, California; Shelby County, Tenn., Nevada; Clay County, Miss., of how welfare dependence was stopped and in effect rolled back in a great many jurisdictions within a year or within 3 years after the child support program went into effect nationwide.

You have heard the HHS proposal described to you. I have tried to describe it in my written remarks and I wouldn't repeat them here. There will be, I think, cutbacks in states that cannot maintain a program within their AFDC collections.

If this happens, paternity work will undoubtedly be cut back. It is at least in the short run an expensive proposition.

In addition to the comments on this work that I have included here, it should be pointed out there has been in my 15 years in working with these cases a shift in the character of the caseload.

Now, over 60 percent of the referrals that we get from our welfare department have a paternity issue involved in them. When I first started in this work, barely a third had a paternity issue.

Thus, cutting the paternity work being done at the prosecutors' level, the local level will, in fact, invariably increase the welfare rolls in this country to a very high degree.

Interstate cases will get short shrift. Finally, the nonwelfare shield against welfare dependence that is now set up will in fact be dropped or severely limited.

There is also the potential in those states where AFDC collections would exceed the net effective cost of the program to leave that money in the local jurisdiction.

There are a number of programs of States yielding more money than cost, listed in the material before you; Michigan in particular is alluded to. All of them need to be considered.

As a county administrator in this program I would have to go to the board of supervisors in my county to argue for program funding, and also to avoid having tagged onto the program various, perhaps logically related activity but only peripherally related activity. In doing so I would find it hard to now resist the requests of those organizations and those county governments to try to pick up that money, to try to have it allocated, when the only alternative is to return at least 50 percent of it to the Federal Government.

The performance incentives we understand will be added on to this proposal can't be computed or relied upon until after the fiscal year. There will then be no incentive in the States to keep program staff active. When described by HHS, they try to use private businesses examples to justify these, but the private businesses pays incentives to individuals. Nowhere do I find commissions for collect-

ing child support being paid public employees, nor do I think that is appropriate. Yet that is the only way the incentives these people are talking about could work as a trained incentive.

Their incentives are a myth. Federal costs of this will increase, not decrease. You could argue under the restructuring that the Federal Government will be better off than now. This will not help the taxpayer who has lost $150 million in tax savings and is faced with a rise in the AFDC costs.

The bureaucracy might conceivably in the short run look good, but over the long run even the Federal bureaucracy will look bad and have to spend more money with this badly structured proposal.

This is because the Federal Government will have to put into the field an army of Inspectors General to try to allocate the way in which money is being spent at the local level or, conceivably, it would have to set up a system at the Federal level to pass on county and state budgets in this area.

With the tangle of redtape outlined above and the priority shift in the program also referred to, AFDC rolls will begin to go up.

We have talked to a great degree about the nonwelfare caseload. It should be pointed out that this Congress has restructured the employment AFDC relationship putting the relatively low income but working individual off of AFDC. This group now is dependent upon child support to a degree never before contemplated in the program.

We are seeing these individuals in our offices. We have to have the resources there to help them, but in fact the way the Federal structure would now be set up there would be no compensation to give them that help, and the inducement for them to go back on AFDC would be practically irresistable.

It should be pointed out that it would not take very many cases losing non-AFDC program enforcement services and going back on AFDC before a considerable amount of the money that HHS is trying to allude to as saved, would be, in fact, eaten up.

The second aspect of the HHS proposal is the proprietary charge of fees in criminal and quasi criminal cases. I question whether or not that would be proper under any circumstances.

Practically speaking, in urban areas the fee would be nothing more than a barrier to participation in the IV-D program and an inducement to go in or apply for AFDC since the individual would then be eligible for free child support enforcement services.

There are productive alternatives. The whole tax intercept program should be reevaluated. It is expected at least that $250 million will be collected and one estimate is $500 million.

If that is true, then in the next year the Federal Government as a separate entity will begin to show a profit along with State and local government.

It is also our experience in dealing with the tax intercept concept that results continue year after year, and the States have had tax intercept for 3 years, collections have not dropped.

In jurisdictions that are totally federally associated and do not work through separate entities, such as the State governments of California, Arkansas, Texas and the like, the Federal Government could do much better.

If the city of Washington, D.C., brought its collection level up to the level of Detroit, even as badly strapped as Detroit is, it would go from a dollar losing proposition for the Federal Government to a profit center, if you will, if that is what we are supposed to show in this program for the Federal Government.

According to census department figures, single-parent families receiving child support increased during the period from 1975 to 1978 from 1.2 million to 2.2 million. Welfare growth stopped or appreciably slowed. The taxpayer is now receiving a dividend of $150 million.

It is ironic to me that I must quote Governor Reagan to oppose a proposal by President Reagan, but his words in 1971 were as follows:

> Too many families are on welfare because of the failure of parents, usually the absent father, to contribute to the support of their children. Where a parent is capable of supporting his children but refuses to do so, the fair solution is to legally enforce his obligation rather than force the taxpayer to make up for the parent's unwillingness to provide adequately for his own offspring.

The vast majority of States and counties have responded to this call to action. The result has been the only form of welfare reform in the last 40 years that has worked, as testified to by editorials in the Washington Post, 2 years after the program came into effect. To now permit OMB and HHS to undercut this effort by the proposed funding scheme is not in the public interest.

The IV-D program is not broke. Please ignore HHS' plea. Pass the optional fee statute, H.R. 4717 and otherwise leave it as it is. It does not need fixing.

I thank the chairman and the committee for letting me present these views.

[The prepared statement follows:]

STATEMENT OF MICHAEL E. BARBER ON BEHALF OF THE FAMILY SUPPORT COUNCIL OF THE CALIFORNIA DISTRICT ATTORNEY'S ASSOCIATION AND THE NATIONAL RECIPROCAL AND FAMILY SUPPORT ENFORCEMENT ASSOCIATION

Mr. Chairman, Members of the Committee:

The organizations I am appearing on behalf of thank you for this opportunity to present our objection to the Administration's restructuring plan for child support enforcement. I am Michael E. Barber, a Deputy District Attorney in Sacramento, California, and a member of the governing boards of both the California District Attorney's Family Support Council and its national counterpart, N.R.F.S.E.A. These organizations are the child support enforcement associations in both Calfornia and nationwide. It is their position, as represented by the enclosed resolution and other material, that the Administration proposal to be formally submitted to you in the budget reconciliation process to restructure funding Title IV-D of the Social Security Act is unsound and ought to be rejected. Instead, it is our position that the present funding structure, as it was in effect in 1981, ought to be retained for the good of the taxpayer.

What the proposal is, what is wrong with it, and how the fiscal goals of Congress can be met without it, will be covered by me.

Background

The problem of child support enforcement and public welfare expenditures have been recognized as a national

problem by Congress since 1967, and by the states long before that. Early attempts to federally encourage support enforcement were examined by G.A.O. in 1973 and pronounced a failure because of weak federal and state leadership. Lack of a real fiscal incentive at the local level was the cause. No study was really needed, the spiralling A.F.D.C. rolls provided testimony enough.

Title IV-D was then passed, with 75 percent federal financial participation and 15 percent of support collections that repaid welfare costs being rebated to local government. A.F.D.C. became "IV-A". From a money losing proposition, support enforcement has become a dividend payer for the taxpayer. It cost $450,000,000 in 1980 to do this work, but under Title IV-D, $603,000,000 in A.F.D.C. related support was collected, and an additional $900,000,000 was collected to keep families off welfare. Even without the cost avoidance factor, the taxpayer got a dividend of $150,000,000, or a rate of return on his investment of about 33 percent.

Nor was this all the taxpayer received. For the first time in over thirty years, a U.S. President, President Ford, was able to say A.F.D.C. growth had stopped, and there are specific examples of the dramatic way in which this happened.

In Oregon, between 1973 and 1975, Oregon's basic A.D.C. caseload rose from 20,000 to 31,000 and reached a high in April of 1978 of 38,000. It was projected that it would climb to 53,000 by 1981. In fact, it never has again exceeded the April 1978 level.

Shelby County (Memphis), Tennessee, reported its welfare caseload dropped 30 percent in the first year of "IV-D".

Nevada saw its A.F.D.C. caseload drop from 3200 to 2300 between 1975 and 1978 instead of climbing to a projected 6000.

The Clay County, Missouri, District Attorney's letter, attached hereto, speaks for itself, but note please, he states he has reduced the A.F.D.C. rolls by one-half in five years in his county.

In California, state activity along the lines of IV-D but preceding it was coincidental with A.F.D.C. growth coming to a halt in 1972. The attached Kings County, California, letter reflects statewide experience. Welfare dependence is eliminated by support enforcement in California in about fifty percent of our non-welfare cases. The taxpayer benefits in amounts far in excess of the $150,000,000 referred to above.

H.H.S. Proposal for Restructuring and Why it Will Fail

H.H.S. has proposed that collections which offset expenditures under IV-A (A.F.D.C.) pay for the whole program. Because the present funding maximizes the return to state and local government, the federal government has operated at a $100,000,000 loss. It is claimed this new proposal will save the federal government this sum. That this is not so will be demonstrated below. But, even worse, it will cost the taxpayer the $150,000,000 now coming back in net IV-A savings, and renew the

upward spiral of welfare rolls that was throttled down in 1975.

The proposal requires that after IV-D program costs are met, the excess, if any, of collections over cost be split with the federal government based on the medicaid sharing ratio. In states that do not collect enough to equal total cost, the federal government would pay part of the difference based on the medicaid sharing ratio.

In jurisdictions that do not collect enough on A.F.D.C. cases to cover costs, the promise of a partial federal subsidy will make no difference. The program will be cut back to equal A.F.D.C. collections. While this group of states includes New York, at least some of the jurisdictions in question are smaller and poorer. Arkansas, West Virginia, Louisiana, Kentucky and Tennessee all fall within this group. Others, such as Nevada, have been so effective in reducing the welfare caseload that they have very few cases left on which to collect.

Because of this, the following negative results will occur unless the H.H.S. proposal is dropped and present funding is left in place.

The first item to be cut back is paternity work. If this effort is reduced, future support rights of a whole generation will be lost. Timeliness is essential in paternity work and the delay resulting from giving such cases low priority makes ultimate adjudication infinitely more difficult. Outward migration from such jurisdictions will create future welfare burdens without the right to

reimbursement being established.

Interstate cases will get much the same treatment, since the enforcement agency's job will depend solely on skimming the cream off local A.F.D.C. collections. Substantial fees will have to be paid on such cases or they will be put on the back burner. In states like Nevada, which, because it has cut its welfare caseload, would not collect on enough welfare cases to cover costs, this is highly possible. This country has all but eliminated refuge states for parents who don't want to support their children. Watch this change quickly if H.H.S. is not stopped.

Third, the level of work on non-welfare cases will necessarily drop, notwithstanding H.H.S.'s efforts to impose a fee nationwide. The whose fee concept will be dealt with later; suffice to say that it has been experimented with, and nowhere has it produced significant revenue. Relegating such cases to a low priority invites reapplication to IV-A for welfare benefits, since then the child support will be enforced without a fee. The savings in IV-A grant costs documented by the enclosed and referred to above will be lost.

Where collections on A.F.D.C. cases exceed total cost, there is the potential for the same prioritization for the states that lose money. But here the dollar saved by this, even in the short run, will quite probably never find its way out of the state. The revenue O.M.B. projects is a chimera. This is because the H.H.S. proposal will induce the states

to keep and spend all the collections.

It is axiomatic that in government, expenditures rise to equal any fixed pool of cash available. But in the present funding system, no such threat exists since there is no fixed pool of cash. Each budgetary increment now requires a new and separate appropriation of local or state funds equal to 25 percent of the item. Thus, each budgetary item must stand on its own merits. Presently, the program manager takes a certain level of pride in holding down costs. Under the proposal H.H.S. is putting before you, if the manager does not spend this pool of cash collected on A.F.D.C. cases, the local jurisdiction will have lost available funds.

Some of this undoubtedly will constitute the same kind of local expenditure relief available in the present system. But now such expenditures must compete with tax relief and therefore stand on their own merits to justify an appropriation.

However, it is likely in the future that with the lack of fiscal incentive to make such tangentially related local programs accountable on their own that new and less effective programs will evolve. In financially strapped Michigan, the taxpayer saving as of 1980 was $50,000,000; in California, $10,000,000; in Wisconsin, $17,000,000; in Massachusetts, $22,000,000. Pennsylvania, New Jersey, and Washington also produce significant taxpayer savings. Watch them disappear if the O.M.B.-H.H.S. proposal is adopted.

H.H.S. has proposed some "performance incentives" payable at the end of the fiscal year to states that outperform other states, or their own past record. However, since none of these equal the amounts that would be the federal share of the difference in collection and cost, they aren't much of an incentive. Since they can't be computed or relied upon until after the fiscal year, they will be no incentive to the states to keep program staff active. They will be, if ever they are paid, simply unbudgeted revenue. Finally, H.H.S. uses uneconomic and unproductive ratios as benchmarks. Instead of the economically sound criteria of comparative rate of return or investment (comparing the rate of return with the market rate of interest), they use the spurious criteria of cost versus collection. The automatic barrier in the present program to excessive state costs is wiped out and nothing that does not cost more is available to substitute for it.

Therefore, federal costs will increase, not decrease. Theoretically, it could be argued that the federal government would still be better off than now. This would not help the taxpayer who has lost $150,000,000 in tax savings and is faced with a rise in A.F.D.C. But the drain on the taxpayer does not end there. Speaking practically, even the federal partner in support enforcement would lose money.

To try to prevent the expenditure of the taxpayers' $150,000,000 on irrelevant items, the federal government will have to put in the field an army of inspectors general. The inevitable lawsuits would follow with government lawyers

on both sides arguing whether any individual appropriation could be reasonably related to paternity proof or child support enforcement. The alternative would be to spend a couple hundred million dollars of federal funds setting up a budget approval system to review all state and county child support budgets before claims could be filed thereon. This might cut down the inspectors general and lawsuits, but the cost and time involved would be enormous. Local initiative would most likely be killed and so would the only form of welfare reform to succeed in the last forty years.

With the tangle of red tape outlined above and the priority shift and cutback in the program also referred to above, A.F.D.C. rolls would again begin to grow. By way of example as to how this would work, please note the following:

Recently a cap was put on the amount that could be earned and welfare benefits still be received. The change in the law is to be applauded. I am aware of cases of abuse of the A.F.D.C. program because of manipulation of work-related allowances, and I have been advised that personnel in other counties have seen similar cases.

But the bulk of these cases need child support to pick up the difference lost in the welfare cutoff. These families perceive of themselves as poor, and many are. They are familiar with the welfare system and know how to obtain its benefits. While I doubt that many people will quit work to obtain A.F.D.C., a change in their economic circumstances (illness, temporary cutback in employment)

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will put this group back at the A.F.D.C. application window unless the child support picks up the slack.

H.H.S.'s scheme for funding IV-D discourages enforcement of support in such non-welfare cases and will promote dismantling of existing efforts in the non-welfare area. A survey of Sacramento County's non-welfare cases even before this cutoff indicates 75 percent of them would be on A.F.D.C. but for this office's efforts. A very quick review of California counties at random shows that 60 percent to 65 percent of their non-welfare caseloads are former welfare cases. The enclosed Kings County letter shows 50 percent of those cases would be on welfare but for the IV-D program. It is obvious that such families are on the knife's edge of A.F.D.C. dependence.

The cost of administering a non-welfare child support case under Title IV-D is infinitely cheaper than a Title IV-A (A.F.D.C./welfare) case. In 1980, in California, a non-welfare IV-D case costs $115.15 per year to administer, based on H.H.S. statistics.

Without considering the A.F.D.C. grant, the average A.F.D.C. (IV-A) case in California costs $480 per year just to administer. In terms of administrative costs, it is much cheaper to keep a family off A.F.D.C. Add in one or two months' welfare grants to this. Then, add in the cost of setting up a welfare-related child support case, and the difference is even greater. Yet, if the child support program is weakened, this is exactly what will happen. So long as Title IV-A (A.F.D.C.) is paid for

out of federal funds, the bulk of the extra cost will come out of the federal budget. If 47 percent of the non-welfare child support cases in California went on A.F.D.C. for just one month, and they got the minimum grant for just one child and a mother, the IV-A cost would exceed $35,000,000, and that is just one month and just California. If O.M.B. and H.H.S. are trying to increase the deficit, they could not have picked a better way to do it.

Other consequences not as easily quantified, but no less predictable, flow from this proposal. Child support enforcement as part of the divorce procedure places more people in contact with the court than any other phase of the judicial system, except traffic court. Weakening the firm stand that has been taken for enforcement of support obligations weakens generally respect for law. Failure to enforce support while taxing people to pay welfare to the unsupported family encourages family formation (or simply procreating without regard to having a family) by those who are unable or unwilling to support an existing household while it discourages family formation and expansion by responsible parents. To anyone who cares about family stability, the consequences of this ought to be obvious.

A second aspect of the H.H.S. proposal is to exact a fee for enforcement of support. The propriety of charging a fee to enforce criminal and quasi-criminal statutes is open to question in itself. Nevertheless, a fee was, as stated above, a state option prior to September of 1981. Rural states used it, urban did not.

The reason for this split on fees may be due to a strong work ethic in rural areas and a social pressure against welfare dependence, urban areas being more liberal in this respect. Thus, the fee became a barrier against perceived abuse of IV-D in rural areas. In urban areas, however, it inhibited cooperation in the IV-D program for the low-income, single parent and often proved more costly to collect than it was worth. Many urban areas observed that the clinic-like atmosphere of IV-D offices screened out middle and high-income cases and that for low income families, the offer of this service avoided welfare dependence. In no case has it been determined that a fee produces significant revenue.

In September of 1981, H.H.S. induced Congress to enact a mandatory fee system. This change was of such magnitude that it would have discouraged participation in IV-D until the viscissitudes of life put the single-parent family back on A.F.D.C. As it came out of Congress, it was unconstitutionally discriminatory and would have punished the responsible parent. H.R. 4717 is now before you to eliminate this mess and restore to the states the option of having or dropping a fee. It is hoped that this will be passed and that efforts by H.H.S. to restore a fee, resisted. It is much cheaper to administer a child support case for a whole year than to pay one month's A.F.D.C. In fact, three child support enforcement cases can be administered for a year in California for the cost of one month of A.F.D.C. to a mother and child.

Productive Alternatives

The bottom line is, this proposal is unnecessary. There are areas where better federal administration would produce sufficient funds to meet the federal shortfall without cutting off the taxpayers' dividend.

The best option is to reevaluate and reinforce the tax intercept program. This is the system whereby a tax refund is set off against past-due child support owed on a welfare case. Records held by H.H.S. secured from the states for this program show $2,000,000,000 is owed the public. Yet, unaccountably H.H.S. has estimated only $100,000,000 will be recovered this year under this program. A more realistic assessment would be $250,000,000; $100,000,000 of which would end up in the federal treasury. Thus, the federal shortfall would be made up by a system already in place.

Nor is this a one-year aberration. Two states, Michigan and California, have submitted tapes totaling $900,000,000 of that two billion dollars. Other states, even those with well-respected collection records, have been understandably more timid in participating in this first-time effort. If the present IV-D funding system stays in place, it can be expected that other state governments will bring their off-set amounts up to similar levels. Also, it has been our experience in California that once a set-off procedure is established, the money continues to roll in during succeeding years. Therefore, for the next several years, this collection tool alone should make up the

difference between federal expenditures and costs. The converse is also true. Cut funding and cut off the incentive to develop this program, and these funds will flow into the pocket of the non-supporting parent rather than the taxpayer to whom it is owed.

The federal government could even make a profit if, instead of trying to abort a program that pays its way and gives the taxpayers $150,000,000 over the cost, it would become more positive and just bring its own jurisdictions up to the level of, say, Detroit. In Detroit, total child support enforcement expenditures are approximately $6,500,000. Collections on just A.F.D.C. cases are about $24,000,000. In the District of Columbia, total program costs are $2,649,798, but A.F.D.C. collections are only $1,286,019, according to H.H.S.'s "The Annual Report to Congress for the Period Ending September 30, 1980." In Guam, the same report says $142,929 was expended but only $102,826 collected on A.F.D.C. cases. For Puerto Rico, the figures are $921,897 expended, $626,322 colleted, and for the Virgin Islands, the figures are $444,953 expended, $131,051 collected.

If H.H.S. and O.M.B. could just bring these areas up to the level of Detroit, collections would be just short of $15,000,000 and net revenue to the federal government of $11,000,000 instead of the present $2,000,000 loss. However, instead of putting their own houses in order, O.M.B. and H.H.S. have elected to reduce funding, and therefore effectiveness, of a state and local effort that yielded to the taxpayers, according to the same report,

$152,000,000 and saved untold millions more by keeping thousands off welfare.

O.C.S.E. could and should consider its staff size and needs. Annual audits may not be necessary under the present funding system. the system is self-regulating. Research grants now made by O.C.S.E. ought to be cut before the taxpayer saving is reduced. It might well be that allowing all IV-D jurisdictions to contact directly the National Crime Information Center (N.C.I.C.) could cut the duplication of effort involved in the Parent Locator Service. Allowing the states to deal directly with I.R.S. in future tax intercepts rather than through H.H.S. could cut the cost and time lost in this process. It is characteristic of central offices everywhere to blame the branches when there is a cost crunch. However, before the organizations that are producing the results, establishing paternity and support, and enforcing support are cut back, the bureaucracy that costs so much but does none of the line effort ought to be carefully scrutinized.

The taxpayer is akin to a stockholder, the states and counties are in the nature of franchisers. The federal government, H.H.S. specifically, is analogous to a central holding company. The franchisers are producing a dividend of $150,000,000 for the stockholders, but in the cost accounting system that produces this dividend, the central office appears to be losing money. To make itself whole in terms of its own fiscal department (O.M.B.), H.H.S. is making a proposal that could destroy the taxpayers'

dividend. The above sets forth a far more logical set of priorities, potential revenues and cost cuts than those from H.H.S. It also saves the 33 percent return on investment to the taxpayer.

Conclusion

According to Census Department figures, single-parent families receiving child support increased during the period 1975 to 1978 (the last year for which figures are available) from 1,200,000 to 2,200,000. Welfare growth has stopped, or appreciably slowed, and the taxpayer is now receiving a dividend of $150,000,000.

Governor Reagan, in March 1971, stated to the California Legislature:

> "Too many families are on welfare because of the failure of parents, usually the absent father, to contribute to the support of their children. Where a parent is capable of supporting his children but refuses to do so, the fairest solution is to legally enforce his obligation rather than force the taxpayer to make up for the parent's unwillingness to provide adequately for his own offspring."

The vast majority of states and counties have responded to this call to action. The result has been the only form of welfare reform in the last forty years that has worked. To now permit O.M.B. and H.H.S. to undercut this effort by their ill-conceived funding scheme is to neither

serve the President nor the public.

The IV-D program is not "broke". Please ignore H.H.S.'s plea; instead, pass H.R. 4717, and otherwise leave it as it is. It doesn't need fixing.

I thank the Chairman and the Committee for permitting me to present these views.

RESOLUTION

DISTRICT ATTORNEY'S FAMILY SUPPORT COUNCIL

February 18, 1982

WHEREAS, the child support enforcement program operating under a funding system providing for 75 percent federal matching funds and a 15 percent federal incentive:

1) has provided the taxpayer with a consistent profit over the costs;

2) has automatic cost controls built in because of the 25 percent local and state contribution to funding and the incentive;

3) provides a sound basis for long-term cost avoidance in the determination of paternity and the enforcement of non-welfare cases; and

4) creates the basis for an effective federal tax intercept program which shows promise of profiting not only the taxpayer in general but the federal government; and

WHEREAS, the proposed federal restructuring of the funding system by basing funding entirely on collections that offset Aid to Families With Dependent Children (A.F.D.C.) grants would:

1) encourage a rise in costs to equal collections;

2) reduce the overall benefit to the taxpayer without meaningfully increasing the profit to the federal government;

3) destroy the paternity determination and non-welfare enforcement programs; and

4) eliminate interstate cooperation; and

WHEREAS, the recently enacted legislation imposes mandatory 10 percent fee on obligors in non-welfare cases, replacing the former system of optimal fees:

1) is confusing and ambiguous;

2) discriminatory in its application;

3) administratively unfeasible; and

4) deleterious to cost-effective collection systems; and

WHEREAS, any mandatory fee system in non-welfare cases:

1) interferes with the concept of federalism because the states should be fair to carry out their own public policies;

2) has been rejected or tried and found counterproductive by the majority or urban states and high volume states; and

3) will have the tendency to encourage welfare dependency, particularly in view of new welfare eligibility standards; and

WHEREAS, the federal government has not given adequate attention to more effective means of increasing effectiveness such as:

1) evaluation of cost avoidance in the welfare system;

2) encouraging the collection of interest and the assessment of attorneys fees and costs in both welfare and non-welfare cases;

3) simplified wage assignments; and

4) increased evaluation, training and assistance to individual states and localities in improving their programs; and

WHEREAS, stability in funding systems and expressed commitment to the program by the federal government is essential to program planning and budgeting by the individual states and localities;

NOW THEREFORE BE IT RESOLVED, that the California District Attorney's Family Support Council urges:

1) The current funding system should be retained;

2) The mandatory fee provision be replaced and the question of fees be left to the option of the states; and

3) Health and Human Services and Congress review the traditional methods of recovering costs in the enforcement of family law cases.

BE IT FURTHER RESOLVED, that copies of this Resolution be sent to appropriate federal agencies and congressional committees.

--oOo--

FAMILY SUPPORT DIVISION

ROBERT R. MALINE
DISTRICT ATTORNEY

JACK V. CRESON
FAMILY SUPPORT ADMINISTRATOR

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April 9, 1982

District Attorney
Domestic Relations
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Sacramento, CA 95816

ATTN: Michael E. Barber

Dear Mike:

As requested of the Family Support Division concerning AFDC and non-AFDC percentages and those that would be forced to seek the aid of District Attorney, Family Support Division the following is submitted:

1. Percentage of non-welfare cases formerly on AFDC-40%
2. Percentage of non-welfare cases with welfare arrears-23%
3. Non-welfare cases that would remain non-welfare - 54%

One hundred non-welfare cases were surveyed and from that survey the responses were as follows:

Would be forced to seek welfare		Have been on welfare		No Responses
Yes	No	Yes	No	
40	47	53	34	13

Hopefully this will be of some help to you.

Very truly yours,

ROBERT R. MALINE
District Attorney

BY Jack V. Creson
JACK V. CRESON
Family Support Administrator

JVC:cb

FAMILY LAW SECTION
OF THE STATE BAR OF CALIFORNIA

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March 11, 1982

SENATOR ALAN CRANSTON
United States Senate
Washington, D. C.

RE: PROPOSED RESTRUCTURING OF THE NATIONAL CHILD SUPPORT ENFORCEMENT PROGRAM

On March 6, 1982 the Executive Committee of the Family Law Section of the State Bar of California unanimously adopted the resolution set forth below which was passed by one of its standing committees. This resolution formally opposes the current proposal of the Department of Health and Human Services which changes the funding and operation of the national child support program under Title IV-D of the Social Security Act.

This resolution states:

"The Office of Child Support Enforcement and the Department of Health and Human Services is proposing significant and sweeping changes in the funding and operation of the national child support program under Title IV-D of the Social Security Act. The Administration's proposal is referred to as "restructuring" of the program. Current seventy-five percent federal financial participation and fifteen percent incentives to state and local child support operations would be replaced by a financing scheme proposing to pay for the program out of sums collected in Aid to Families with Dependent Children cases supplemented by performance bonuses.

The restructuring appears to be ill conceived on many points. It is an attempt to create a short term savings for the federal government that is not in the interest of children, custodial parents, or the taxpayer overall. OSCE is attempting to cut the federal budget in this area at the expense of those served by the program and state and local government:

1. The funding proposal would center all emphasis on AFDC collections creating a disincentive for the prosecutors to continue work in the area of non-welfare collections, paternity

determination, and inter-state action under URESA.

2. The program nationwide currently operates at a net saving to the taxpayers. The gain to state and local governments under the existing program is greater than the current loss to the federal government.

3. The proposal is shortsighted. Conservative estimates show that the federal government will be operating "in the black" under the existing formula with the addition this year of the Internal Revenue Service Intercept program for past due child support.

4. Providing adequate services to marginal income custodial parents has not been considered. The new formula ignores cost avoidance and the reality that non-welfare cases will be forced back onto AFDC rolls if state and local enforcement activities are lessened or ended.

5. Over four-fifths of the states will lose funds for child support establishment and enforcement under the proposed plan. The urban and heavily populated states will be the hardest hit. At or near the top of the list for decreased funding will be California. Decreased funding means cutbacks in services in post-Proposition 13 California.

The Standing Committee on Support-South unanimously passed the following Resolution and forwards it for endorsement by the Executive Committee of the Family Law Section of the State Bar of California:

RESOLVED, that the Family Law Section, Standing Committee on Support-South of the State Bar of California urges

1. The current funding of the national child support program under Title IV-D of the Social Security Act should be retained.

2. Mandatory fees for services to non-welfare applicants for IV-D services should be left to the option of the states, and

3. The Department of Health and Human Services and Congress review the traditional methods

of recovery of costs in the enforcement
of family law cases."

By unanimous vote of the Executive Committee of the Family Law Section the above resolution was formally adopted as its resolution on March 6, 1982.

This action by the Family Law Section, which represents more than 2,000 family law practitioners in the state of California, reflects the formal position of the section only. This action does not represent the opinion of the State Bar of California since this resolution has not, as yet, been submitted to the Board of Governors for consideration.

Spencer Brandeis

SPENCER BRANDEIS, Chair
Executive Committee - Family Law Section

SB:dl

cc: Members of Congress from California
Chairs of Appropriate Committees

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March 9, 1982

The Honorable Thomas F. Eagleton
United States Senate
Washington, D.C. 20510

Dear Senator Eagleton:

The proposed "formula" from the Office of Child Support Enforcement prompts me to write you this letter expressing my concern over such an ill-conceived approach to reduce the federal budget. The original concept of the child support program was to put the responsibility of supporting the children on the parent, thereby removing the financial burden from the taxpayer. This also included those not drawing Aid to Families with Dependent Children (AFDC).

My Family Support Division worked toward reducing the AFDC roles in Clay County since the inception of IV-D by removing over one-half of the recipients from aid. In doing this, our Non-AFDC cases have grown considerably. Now, for a job well done, the so called "formula" will penalize Clay County for doing its job.

Counties throughout the State of Missouri are already strapped with tight budgets. Therefore, if the "formula" goes into effect as proposed, Clay County could no longer participate at its present level of representing the children of this county.

As the Clay County Prosecuting Attorney, I strongly oppose the radical approach of the Office of Child Support Enforcement which in the long run will result in increased dependency on AFDC.

Sincerely,

William S. Brandom
Prosecuting Attorney
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March 9, 1982

Honorable Thomas F. Eagleton
United States Senate
Washington, D.C. 20510

Dear Senator Eagleton:

The Office of Child Support Enforcement has proposed a "formula" that will basically destroy a viable program. The child support program was enacted into law by the federal government to save tax dollars by getting the absent parent to support his family. It is not just a legal obligation of a parent--it is a moral obligation.

The cuts proposed by the Office of Child Support Enforcement will set Clay County back five (5) years. The Family Support Division of the Clay County Prosecuting Attorney's Office has reduced the AFDC roles one-half in the past 5 years. Our collections in 1981 were $1.9 million -- $1.6 million of which is NON-AFDC. If the "formula" becomes a reality, Clay County would be forced to pick up full funding for the NON-AFDC program. Budgets are so strained at the county level now it would be impossible for this county to continue to help clients not receiving AFDC. If this office is funded only by AFDC collections, you can see the impact on clients not receiving aid. They will be forced to once again take a back seat.

Child support enforcement is one of the few federal programs that actually receives money back for money spent. Therefore, it is more than a person can understand as to the reason for the severe cuts in this program.

You, as an elected official, represent the voter. Clay County's Family Support Division represents the children. These children need your help in keeping the child support program as it is.

Sincerely,

Sue Ann Wilds
Director
Family Support Division
7 West Mill
Liberty, Missouri 64068

SAW/nc

Mr. ANTHONY. Thank you very much for your testimony. Having had quite a bit of experience—10 years of experience—in dealing with these problems, I have watched the Federal legislation grow up, intended to have some influence on a local level, and can tell you that it had that exact consequence in my particular area.

I had been pushing the local county court to try to give me some extra funds in which to try to resolve the problem Mr. Fredrickson and Ms. Jeffries mentioned. They are the two problems that I had to contend with almost on a daily basis: Why should taxpayers be required to bear the cost of supporting the children of the financially capable but irresponsible parent, and how do we reverse this trend of absent parents?

We have all heard that comment. They quit living together because they know the State is going to pay for them, and they are just down the street living with somebody else and they are going to go back tomorrow. It is a problem.

Then you say on page 5—you have really zeroed in on it. It gives me great faith in what you say today. It says:

> Of even greater concern is the possibility that the very existence of the welfare program has caused some of these fathers to conclude that if they have marital difficulties, they need not worry about the consequences of leaving their families because the government will provide assistance while they go out and start other families.

It is politically unacceptable, morally unacceptable, and those are two additional words that I put in there. We must find a solution which will eliminate or at least reduce the problem.

I think you zeroed right in on the heart of the matter, and I think you have made some very excellent suggestions that hopefully this committee will listen to. But more importantly, maybe the proposed authors of the regulations will take a new, fresh look at what they are going to propose and maybe we will look at this record in hopes that when they do go from proposing a broad principle to putting it down in specifics, when those specifics come out, it won't be nearly as drastic as we have all been led to believe that they may be.

I know in my small jurisdiction we utilize that program and all of a sudden we started bringing people into court for child support cases, and we found something very interesting in our small community.

We found out that when we started prosecuting them and bringing them in—either into a misdemeanor court or bringing them

into civil court—and making them pay, and if they did not pay, get the court to order them in contempt, we found that the welfare rolls started being reduced. We found that people voluntarily went in and took themselves off the rolls.

We found out that firm enforcement also had another benefit that sometimes does not show up in the reports because you can't claim that as a direct savings, but if you have been there fighting day after day, you know that it is there, and it gives you that encouragement to keep fighting it even harder because you know that your program is working not only from a dollar standpoint, but you know that you are then winning the political and the moral battle and that you are making some of these people go do what they ought to do.

So, let me just say you have got my strong support. I understand the problem and how the program works. Maybe together we can fight off any adverse regulations or proposed changes that would cripple you and reverse a healthy trend.

I look at this like I do law enforcement in general. Law enforcement does not pay for itself. If it did, we would not have felony courts. There are some things that we have got to pay for in a society to make sure that we get the intended benefits that we need.

I think this is one of the cases where we can put in a little money in order to get the moral and the political benefit out of a program that we need. We may not necessarily get it on a totally cost-effective manner because I think there are some other benefits that may outweigh just getting a dollar returned for a dollar invested.

I just want to congratulate you for coming in and giving your testimony. I think it makes a great deal of sense.

I yield to Mr. Pease.

Mr. PEASE. I have no questions.

Mr. BARBER. Thank you for your remarks, Mr. Anthony, as a fellow prosecutor.

Mr. PEASE. We will take the next panel. The next panel will be made up of Kenyon Burke, Ruth Flower, and Kelly Chatman. We welcome this newest panel.

We note from our witness schedule we still have 19 witnesses to go. I will again repeat we will automatically put each of your prepared statements into the committee record, and when each of you begins speaking, we will trip a little button that will activate the green light in front of you. I hope you will be able to carefully finish your statement in the 5 minutes that will elapse by the time the red light goes on.

All right, let's start with Mr. Burke from the National Council of Churches of Christ.

STATEMENT OF KENYON BURKE, ASSOCIATE GENERAL SECRETARY FOR CHURCH AND SOCIETY, ON BEHALF OF THE NATIONAL COUNCIL OF THE CHURCHES OF CHRIST

Mr. BURKE. Mr. Chairman and members of the subcommittee, I am Kenyon Burke, associate general secretary for church and society of the National Council of Churches. I appear before you today

on behalf of the Health & Welfare Working Group of the National Council of Churches.

The Health & Welfare Working Group has designed welfare as one of its top priority concerns, along with the closely related issues of full employment, health care and drug abuse and alcoholism.

I would like to go on record, first of all, in support of H.R. 6085, 5284, and 5452. My remarks will be limited to AFDC this afternoon, and also I will lift out highlights of our prepared statement. The more formal and detailed one is being submitted to the committee.

The national council has long been committed to improving the lives of the Nation's poor through employment opportunity, guaranteed income and provision of adequate social services.

For many years the NCC has worked on behalf of low income people in an effort to assure that everyone in this country has the opportunity to achieve a decent standard of living. While we feel that this goal can best be attained by the healthy operation of a full employment economy, we realize that even in the best of times some of our brothers and sisters cannot and should not be expected to provide for their families through employment.

These are not the best of times. Millions of people seeking work cannot find jobs. Millions more are underemployed, and other millions who have jobs cannot earn enough to cover basic family needs.

The budget cuts imposed on the aid to families with dependent children program in fiscal year 1982 have wrought havoc in the lives of thousands of families, causing incalculable deprivation, especially to children.

We deplored these cuts and were appalled to learn that the administration's proposal for fiscal year 1983 would continue the pattern of denying to poor children and their families the most basic necessities for bare survival.

Let us be very clear that what we are talking about here is children; 69 percent of the recipients of AFDC are children, and more than 35 percent are below the age of 6.

It is important to remember in this context that where AFDC benefits are reduced, it is not only the parents who suffer. Overwhelmingly, it is children who have less to eat, whose shelter is colder and more dilapidated, whose health needs go unattended. It is the next generation that is being punished and deprived for what society perceives as the inadequacies of their parents.

We are opposed to all of the administration's proposed changes in the AFDC program for fiscal year 1983, both as they appear in the budget documents and as they have so far been spelled out in the New Federalism plan.

We believe that it is the responsibility of the Federal Government, acting on behalf of all citizens, to provide for the general welfare, and we reject the proposal to make welfare a State-controlled program.

Because of the time constraints in this hearing, our comments about the AFDC proposals before this committee will be limited to four topics. Although the fiscal year 1983 AFDC cuts were extremely harsh in their treatment of the working poor, they left welfare

recipients who cannot work relatively unharmed. In this group we include children, teenagers in school, aged, handicapped, and caretakers of young children.

Fiscal year 1983 budget proposals, if enacted, would make significant reductions in the disposable income of these people. Proposed cuts in medicaid, subsidized housing, and food stamps could have a drastic effect on nonworking families.

Within the jurisdiction of the subcommittee, the administration's plan to reduce AFDC benefit dollar for dollar by the account of low income energy assistance received is especially harsh for nonworking people. They, being at home for more hours daily than employed people, are likely to consume more fuel.

The administration's proposal would, in effect, force poor families to choose between heating and eating. We therefore oppose this proposal.

No. 2, work disincentives. According to a recent study by the Center for the Study of Social Policy, last year's AFDC cuts significantly reduced the disposable incomes of employed parents and their children.

Prior to fiscal year 1982, working AFDC mothers earning an average wage among their peers were able to bring their family incomes above the poverty line in 29 States. After last year's cuts, the same families were below the poverty line in every state. The fiscal year 1983 proposals would push them below 85 percent of the poverty line in every State.

We have reviewed Chairman Ford's bill, H.R. 5791, and feel it is an important step in the direction of restoring the work incentives which the fiscal year 1982 budget cuts removed from the AFDC program.

We commend the chairman for taking the initiative on this important issue. If adopted by Congress, these provisions will help to assure that employed people receiving AFDC benefits would be better off than they were when they did not work.

Mr. Chairman, may I interrupt for a minute? Would you explain what this light means?

Mr. PEASE. The yellow light goes on when you have 1 minute left. You have less than a minute.

Mr. BURKE. Thank you, sir. I have less than a minute now. All right.

The other thing we are concerned about is a loss of medicaid aid eligibility, and we are also concerned about the work requirement.

The National Council of Churches supports full employment, and I must go on record as saying, sir, that we will continue to feed the hungry where we can, to clothe the naked, to house the homeless and care for orphans and the sick and the handicapped and the elderly. However, we cannot do it all when it is not within our resources to perform this enormous job.

It is our position—and I am almost through—that the charity of the religious community only eases the burden of last year's budget cuts for the poor. It cannot resolve it. Furthermore, we believe it is our duty to remind the government of its fundamental obligation to social justice, its responsibility to assure that no citizen goes without the basic needs for a dignified and decent human life.

I thank you, Mr. Chairman.

Mr. PEASE. Thank you, Mr. Burke.
[The prepared statement follows:]

STATEMENT OF KENYON BURKE, ASSOCIATE GENERAL SECRETARY FOR CHURCH AND SOCIETY, NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

Introduction

Mr. Chairman and members of the Subcommittee, I am Kenyon Burke, Associate General Secretary for Church and Society of the National Council of Churches. I appear before you today on behalf of the Health and Welfare Working Group of the National Council of Churches. The Health and Welfare Working Group has designated welfare as one of its top priority concerns, along with the closely related issues of full employment, health care, and drug abuse and alcoholism.

The National Council of Churches of Christ in the USA is a cooperative agency of thirty-two Protestant and Orthodox bodies in this country. I do not purport to speak for all members of the communions which are constituent to the National Council of Churches. I am speaking for the Governing Board, the policy-making body which is composed of persons selected by member donominations in proportion to their size. It is this group which determines the policy positions through which the Council seeks to fulfill its expressed purpose "to study, and to speak and to act on conditions and issues in the nation and the world which involve moral, ethical and spiritual principles inherent in the Christian gospel."

In a 1966 Policy Statement entitled "The Churches' Concern for Public Assistance," the Governing Board of the National Council of Churches said, "Our burgeoning productivity makes possible, and our Judeo-Christian

ethic of justice makes mandatory, the development of economic policies and structures under which all people, regardless of employment status, are assured an adequate livelihood."

As early as 1954, our ethical concerns regarding income maintenance were outlined in a Policy Statement on "Christian Principles and Assumptions of Economic Life," which said:

> All the resources of the earth ... are gifts of God, and every form of ownership or use of such property should be kept under such scrutiny that it may not distort the purpose of God's creation. God is the only absolute owner. Every Christian particularly should look upon all of his possessions, as well as his talents, as a trustee, and should use them in the light of his understanding of God's purpose for him .... That the material needs of men be met through their economic institutions and activities is one condition of their spiritual growth .... Christians should work for a situation wherein all have access at least to a minimum standard of living .... Great contrasts between rich and poor in our society tend to destroy fellowship, to undermine equality of opportunity, and to undercut the political institutions of a responsible society.

As these statements illustrate, the National Council has long been committed to improving the lives of the nation's poor through employment opportunity, guaranteed income, and provision of adequate social services. For many years the NCC has worked on behalf of low-income people in an effort to assure that everyone in this country has the opportunity to achieve a decent standard of living. While we feel that this goal can best be attained by the healthy operation of a full employment economy, we realize that even in the best of times some of our brothers and sisters cannot and should not be expected to provide for their families through employment. These are <u>not</u> the best of times. Millions of people seeking work cannot find jobs. Millions more are underemployed. And other millions who have jobs cannot earn enough to cover basic family needs.

The budget cuts imposed on the Aid to Families with Dependent Children program in FY82 have wrought havoc in the lives of thousands of families, causing incalculable deprivation, especially to children. We deplored these cuts and were appalled to learn that the Administration's proposals for FY83 would continue the pattern of denying to poor children and their families the most basic necessities for bare survival.

Let us be very clear that what we are talking about here is children; 69% of the recipients of AFDC are children, and more than 35% are below the age of 6. The great majority of the adults are the mothers and other female caretakers of the youngsters. Only 18% of all welfare families are headed by men -- fathers, grandfathers, uncles or stepfathers. It is important to remember in this context that where AFDC benefits are reduced, it is not only the parents who suffer. Overwhelmingly, it is children who have less to eat, whose shelter is colder and more dilapidated, whose health needs go unattended. It is the next generation that is being punished and deprived for what society perceives as the inadequacies of their parents.

We are opposed to all of the Administration's proposed changes in the AFDC program for FY83, both as they appear in the budget documents and as they have so far been spelled out in the "New Federalism" plan. We believe that it is the responsibility of the federal government, acting on behalf of all citizens, to provide for the general welfare, and we reject the proposal to make welfare a state-controlled program.

Because of the time constraints in this hearing, our comments about the AFDC proposals before this committee will be limited to four topics:

(1) benefit reductions for those who cannot work;

(2) disincentives to work;

(3) loss of Medicaid benefits; and

(4) the need for worker safety and other protections in any work requirement.

1. Benefit Reductions for Those Who Cannot Work

Although the FY82 AFDC cuts were extremely harsh in their treatment of the working poor, they left welfare recients who do not work relatively unharmed. We believe that all citizens have a responsibility to care, through the use of their tax dollars, for those people who cannot or should not be expected to provide for their own needs through employment. In this group we include children, teenagers in school, the aged, the handicapped, and caretakers of young children.

The FY83 budget proposals, if enacted, would make significant reductions in the disposable income of these people. On average, non-working recipients would have their incomes reduced from 76% of the poverty line in 1982 to 72% in 1983 (see Table 1, attached). Proposed cuts in Medicaid, subsidized housing and food stamps could have a drastic effect on non-working families. Within the jurisdiction of this Subcommittee, the Administration's plan to reduce AFDC benefits dollar-for-dollar by the amount of Low-Income Energy Assistance received is especially harsh for non-working people; they -- being at home for more hours daily than employed people -- are likely to consume more fuel. This Administration proposal would, in effect, force poor vamilies to choose between heating and eating. We oppose this proposal.

2. Work Disincentives

According to a recent study by the Center for the Study of Social Policy, last year's AFDC cuts significantly reduced the disposable incomes of employed parents and their children (see Table 5, attached). Prior to FY82, working AFDC mothers earning an average wage among their peers were able to bring their family incomes above the poverty line in 29 states. After last year's cuts, the same families were below the poverty line in every state. The FY83 proposals would push them below 85% of the poverty line in every state. The disposable income of the average AFDC mother with two children would drop from $595 per month (101% of poverty line) to $432 (73% of poverty) through the FY83 cuts in welfare and food stamps. In half of the states surveyed by the Center, a working AFDC mother would have less disposable income than a mother who does not work. In only four states (South Carolina, Arkansas, Tennessee and Mississippi) would she be substantially (at least $100 per month) better off because of working.

We have reviewed Chairman Ford's bill, HR 5791, and feel it is an important step in the direction of restoring the work incentives which the FY82 budget cuts removed from the AFDC program. We commend the Chairman for taking the initiative on this important issue. If adopted by Congress, these provisions will help to assure that employed people receiving AFDC benefits would be better off than they were when they did not work.

In particular, we endorse the proposal in H.R. 5791 to repeal the four month limitation on the use of the "$30 plus one-third" work bonus and to increase the first $30 to $50. As the "$30 and one-third" provision now operates, in most states a four-person family would lose eligibility for any AFDC supplement if the head of household has a minimum wage full-time job for over four months, even though its income is still below the poverty line. The four-month provision is especially punitive when combined with the gross income ceiling for AFDC also adopted last year. That ceiling is now set at 150% of the standard of need established by the recipient's state. In all but one state (Vermont) and the District of Columbia the February 1982 need standard was below the Census Bureau's 1980 poverty threshold of $701 per month. In two-thirds of the states, even the 150% gross income limit is below the poverty level because the states have set their standards of need so very low (ranging from $201 for a family of four in Texas to $782 in Vermont, with ten states below $300 for four).

By repealing the gross income limitation for AFDC families enacted by Congress last year, Chairman Ford's bill would make many of the working poor once more eligible for AFDC, thus providing relief for another one of our major concerns.

3. Loss of Medicaid Eligibility

In 20 states the working families excluded from AFDC benefits by their earnings also lose all Medicaid coverage for themselves and their children. Because of last year's budget cuts, some of the remaining states are now restricting or planning to drop Medicaid coverage for the

working poor. They will be further motivated to do so by the Administration's FY83 proposal to decrease the federal reimbursement rate for non-AFDC Medicaid recipients.

When working families will lose Medicaid coverage for their children because they work, and when their disposable incomes are not much higher than the incomes of those who do not work, the pressure to leave work or to decline the opportunity to earn more is bound to increase.

We have long supported efforts to provide adequate health care coverage for all Americans as a matter of entitlement. We reject all of the changes in the AFDC program -- proposed and enacted -- which deny our poorest citizens the basic health care to which they have a right. We are convinced that the cost of providing them with such care is minor compared to the cost both in human suffering and in dollars of allowing illness and handicapping conditions to go untreated.

4. Work Requirement

We are disturbed by the Administration's proposals for a work requirement because it appears to be more punitive than constructive. The National Council of Churches has long supported the concept of Full Employment. We worked hard for the passage of the Humphrey-Hawkins Full Employment and Balanced Growth Act in 1978 and we regret very much that it has not been implemented. We are convinced that the best way for a person to leave the welfare rolls is to work his or her way off, not to be forced out by administrative changes. However, we feel that the Administration's work requirement proposal contains no hope for such personal growth. It makes no provision for job training and placement services, and it includes no assurance of the protections for the worker's safety and income which are

normally part of employment. Rather, this proposal appears to be a punitive one intended to force people into jobs which are so unpleasant and unrewarding that they would rather leave the welfare rolls than take the required jobs. We believe that this workfare program would be extremely difficult and costly to administer; but more importantly, we feel that the workfare proposal degrades the very concept of employment. It both insults the worker and demeans the work.

Instead of the Administration's proposed work requirement, we advocate an improved and expanded Work Incentive Program with genuine work training and job placement components. Punishing people for their unemployment by forcing them into dead-end jobs will contribute nothing towards helping them to become self-sufficient. What they need is an opportunity to learn job skills which will enable them to support their families.

Conclusion

Mr. Chairman, America is a rich and abundant land -- a land of opportunity, where people should be able to improve their lot in life by virtue of their own work; and yet we say to our poorest people, "If you try to work your way off welfare, we'll take away your benefits and make you poorer. If you work to give your children a better life, we'll take away their health care protection. If you stay at home to care for your toddlers, we'll force you into a job. And if you think that job should lead to a better job, we'll make sure it doesn't by denying you job training." Is that really what we want to say to the poor? Is that really America's message?

Our message should be that we will care adequately for those who are dependent upon the government for their care, and that we will do everything in our power to encourage and enable those who are in need but can become independent to do so. The Administration's FY83 welfare proposals hold no such hope. Rather, their enactment would guarantee our neediest brothers and sisters a life of perpetual poverty and dependence.

For as long as the religious community has existed, it has been involved in feeding the hungry, clothing the naked, housing the homeless, and caring for orphans, the sick, the handicapped, and the elderly. The best efforts of the Church have never been enough to meet the need, even when the economy has been healthy and vigorous. Now churches and social service agencies are suffering reduced funding at the same time that they face rapidly increasing requests for assistance.

From all parts of the country, we are hearing extremely distressing reports about the extent of real poverty among the people served by our agencies, and about the growing inability of those agencies to meet the need.

For example, the Houston, Texas, Interfaith Hunger Committee in January and February 1981 disbursed 66% more food than it did during the same two months of 1980, without being able to feed all of those who applied for help. This project is operated by 158 churches in the Houston area.

In New Orleans, Louisiana, the Community Food Distribution Center serves 19 agencies providing food to 5900 people. Since October 1, 1981 half of these agencies have doubled their requests to the Center for food

to distribute. Eighty per cent of the non-perishable food comes from local parishes and congregations.

Mr. Chairman, we will continue to intensify our efforts to assist our needy brothers and sisters. It is a task which we cannot and should not carry out alone. Recently, our General Secretary, Dr. Claire Randall, joined with the Chief Executive Officers of four other major religious groups to issue a statement which concluded:

While our charitable efforts will continue, our response must also include a call to justice. Our biblical and historical traditions are founded on justice. Made in the image of God, the human person is endowed with a special dignity, a dignity which is protected by a fundamental set of basic human rights not dependent on charity alone.

Among these rights are the rights to those necessities which are required for proper human development -- food, clothing, shelter, medical care, employment and basic social services. Throughout religious social teachings, these rights are presented as a kind of base line -- a set of minimum conditions of natural well-being which must be met if human dignity is to be protected. The very reason for the existence of Government is to promote the common good by protecting these human rights.

When people are without employment, food, shelter, and health care, it is not only proper, but required that Government intervene to assure these necessities. Government must fulfill its responsibility to ensure that the basic needs of all citizens are met. To abandon that role would constitute a threat to the dignity and lives of the poor.

The administration's expressed expectation that religious bodies

will shoulder these burdens seems to us not only unrealistic, but also inappropriate. In the United States, it is not the responsibility of Government to define the task for religious bodies. If anything, it is the responsibility of religious bodies -- as it is of other citizen's groups -- to define the task of Government. The charity of the religious community can only ease the burden of last year's budget cuts on the poor; it cannot resolve it. Furthermore, we believe it our duty to remind the Government of its fundamental obligation to social justice -- its responsibility to ensure that no citizen goes without the basic necessities for a dignified and decent human life.

Mr. Chairman, we commend you and the Public Assistance Subcommittee for holding such extensive hearings on these issues, and we thank you for giving us the opportunity to share our views and concerns with you.

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TABLE 1

EFFECT OF BUDGET RECONCILIATION ACT AND FY 1983 BUDGET PROPOSALS ON MONTHLY DISPOSABLE INCOME* AND POVERTY STATUS** OF NON-WORKING AFDC FAMILIES

	Prior to Budget Reconciliation Act		Current Law		FY 1983 Proposals	
	Disposable Income	Percent of Poverty	Disposable Income	Percent of Poverty	Disposable Income	Percent of Poverty
ALABAMA	$307	52%	$307	52%	$301	51%
ARIZONA	$370	63%	$370	63%	$363	62%
ARKANSAS	$311	53%	$311	53%	$305	52%
CALIFORNIA	$584	99%	$584	99%	$561	95%
COLORADO	$468	79%	$468	79%	$435	74%
CONNECTICUT	$563	96%	$563	96%	$509	86%
DELAWARE	$438	74%	$438	74%	$405	69%
DISTRICT OF COL.	$450	76%	$450	76%	$427	72%
FLORIDA	$377	64%	$377	64%	$368	62%
GEORGIA	$362	61%	$362	61%	$351	60%
IDAHO	$466	79%	$466	79%	$436	74%
ILLINOIS	$449	76%	$449	76%	$428	73%
INDIANA	$419	71%	$419	71%	$398	68%
IOWA	$505	86%	$505	86%	$466	79%
KANSAS	$467	79%	$467	79%	$445	76%
KENTUCKY	$376	64%	$376	64%	$354	60%
LOUISIANA	$366	62%	$366	62%	$356	60%
MAINE	$462	78%	$462	78%	$428	73%
MARYLAND	$432	73%	$432	73%	$408	69%
MASSACHUSETTS	$518	88%	$518	88%	$478	81%
MICHIGAN	$513	87%	$513	87%	$489	83%
MINNESOTA	$573	97%	$573	97%	$522	89%
MISSISSIPPI	$287	49%	$287	49%	$279	47%
MISSOURI	$409	69%	$409	69%	$393	67%
MONTANA	$472	80%	$472	80%	$431	73%
NEBRASKA	$500	85%	$500	85%	$460	78%
NEW HAMPSHIRE	$505	86%	$505	86%	$457	78%
NEW JERSEY	$500	85%	$500	85%	$466	79%
NEW MEXICO	$417	71%	$417	71%	$393	67%
NEW YORK	$537	91%	$537	91%	$508	86%
NORTH CAROLINA	$369	63%	$369	63%	$357	61%
NORTH DAKOTA	$525	89%	$525	89%	$464	79%
OHIO	$422	72%	$422	72%	$403	68%
OKLAHOMA	$434	74%	$434	74%	$415	70%
OREGON	$462	78%	$462	78%	$441	75%
PENNSYLVANIA	$465	79%	$465	79%	$439	74%
RHODE ISLAND	$567	96%	$567	96%	$526	89%
SOUTH CAROLINA	$334	57%	$334	57%	$316	54%
SOUTH DAKOTA	$478	81%	$478	81%	$441	75%
TENNESSEE	$322	55%	$322	55%	$305	52%
TEXAS	$306	52%	$306	52%	$301	51%
UTAH	$503	85%	$503	85%	$471	80%
VERMONT	$596	101%	$596	101%	$542	92%
VIRGINIA	$417	71%	$417	71%	$398	68%
WASHINGTON	$551	94%	$551	94%	$518	88%
WEST VIRGINIA	$380	65%	$380	65%	$366	62%
WISCONSIN	$579	98%	$579	98%	$539	92%
WYOMING	$471	80%	$471	80%	$437	74%
AVERAGE	$450	76%	$450	76%	$423	72%

*Disposable income figures shown for each state represent the monthly AFDC, food stamps, and energy assistance benefits that would be paid to a non-working AFDC family of three.

**Poverty status is expressed in terms of monthly disposable income divided by the federally-established 1980 poverty level for a family of three, or $589 per month.

Source: "Profiles of Families in Poverty: Effects of the FY 1983 Budget Proposals on the Poor." The Center for the Study of Social Policy. Washington D.C.

TABLE 5

The Effect of Employment on the Monthly Disposable Income* of AFDC Families: Comparison of FY 1981, FY 1982, and FY 1983

	FY 1981 Prior to Budget Reconciliation Act			FY 1982 Current Law			FY 1983 Budget Proposals		
	DISPOSABLE INCOME			DISPOSABLE INCOME			DISPOSABLE INCOME		
	Non-Working Parent	Working Parent	Difference**	Non-Working Parent	Working Parent	Difference**	Non-Working Parent	Working Parent	Difference**
ALABAMA	$307	$406	$ 99	$307	$365	$ 59	$301	$347	$ 46
ARIZONA	370	449	79	370	374	4	363	355	– 8
ARKANSAS	311	464	154	311	454	144	305	420	115
CALIFORNIA	584	758	174	584	537	– 47	561	479	– 82
COLORADO	468	601	133	468	477	9	435	424	– 11
CONNECTICUT	563	731	168	563	534	– 29	509	470	– 40
DELAWARE	438	589	151	438	480	42	405	438	33
DIST. OF COLUMBIA	450	616	166	450	499	49	427	453	26
FLORIDA	377	491	114	377	402	25	368	377	10
GEORGIA	362	453	91	362	368	6	351	347	– 4
IDAHO	466	634	168	466	512	46	436	460	24
ILLINOIS	449	590	141	449	459	10	428	420	– 8
INDIANA	419	564	144	419	463	44	398	426	29
IOWA	505	664	159	505	501	– 4	466	450	– 16
KANSAS	467	612	145	467	478	10	445	433	– 13
KENTUCKY	376	522	147	376	470	94	354	432	78
LOUISIANA	366	449	83	366	371	5	356	349	– 7
MAINE	462	649	187	462	526	64	428	464	37
MARYLAND	432	590	158	432	485	54	408	443	35
MASSACHUSETTS	518	685	167	518	511	– 6	478	459	– 19
MICHIGAN	513	675	162	513	532	19	489	482	– 6
MINNESOTA	573	742	169	573	537	– 36	522	472	– 50
MISSISSIPPI	287	504	216	287	442	154	279	410	131
MISSOURI	409	570	161	409	483	74	393	442	49
MONTANA	472	566	94	472	478	6	431	423	– 8
NEBRASKA	500	656	156	500	498	– 2	460	447	– 12
NEW HAMPSHIRE	505	649	145	505	515	10	457	444	– 13
NEW JERSEY	500	661	162	500	497	– 3	466	451	– 15
NEW MEXICO	417	546	129	417	439	22	393	406	13
NEW YORK	537	703	166	537	525	– 12	508	468	– 40
NORTH CAROLINA	369	504	135	369	441	72	357	410	53
NORTH DAKOTA	525	684	159	525	521	– 4	464	464	0
OHIO	422	543	121	422	430	8	403	393	– 10
OKLAHOMA	434	587	152	434	468	34	415	430	15
OREGON	462	628	166	462	496	33	441	451	10
PENNSYLVANIA	465	631	166	465	501	36	439	455	16
RHODE ISLAND	567	720	152	567	567	0	526	502	– 24
SOUTH CAROLINA	334	495	161	334	453	119	316	418	102
SOUTH DAKOTA	478	633	155	478	489	12	441	445	4
TENNESSEE	322	456	134	322	438	116	305	405	100
TEXAS	306	409	104	306	372	66	301	353	52
UTAH	503	629	126	503	511	9	471	460	– 11
VERMONT	596	768	172	596	543	– 53	542	478	– 64
VIRGINIA	417	549	132	417	439	22	398	407	10
WASHINGTON	551	713	161	551	545	– 6	518	485	– 33
WEST VIRGINIA	380	493	112	380	404	24	366	378	12
WISCONSIN	579	750	171	579	537	– 42	539	467	– 72
WYOMING	471	593	122	471	479	8	437	426	– 10
US AVERAGE	$450	$595	$146	$450	$476	$ 26	$423	$432	$ 9

*Disposable income figures shown for each state represent the sum of earnings, AFDC, Food Stamps, EITC, and energy assistance benefits for either a working or non-working family in that state. Earnings are calculated based on the average earnings for an AFDC family in that state.

**All numbers do not add due to rouding.

Source: Profiles of Families in Poverty: Effects of the FY 1983 Budget Proposals on the Poor. The Center for the Study of Social Policy. Washington D.C.

INTERFAITH STATEMENT ON THE ROLES OF RELIGIOUS INSTITUTIONS AND GOVERNMENT IN MEETING HUMAN NEED

The current administration has called for a new approach in meeting human needs. This approach would radically alter the traditional role of the Federal Government "to promote the general welfare." It is founded partly on the expectation that the private sector can and will assume primary responsibility for dealing with social problems such as unemployment, poverty and hunger. We reject this approach.

This suggestion raises not only the question of whether the religious community can meet the human need gap created by the budget cuts, but it also raises the deeper question of what is the role and responsibility of the society and government in meeting the human needs of our most vulnerable citizens.

Over the last year the religious community has increased its resources for responding to the dramatic increase in demand for human services as a result of budget cut-backs. In neighborhoods and cities across the country this response is everywhere in evidence. In hundreds of churches and synagogues emergency food programs and soup kitchens have had to expand; their buildings have been turned into emergency shelters for growing numbers of the homeless. Special fund raising efforts have been initiated by our service agencies in an effort to compensate for lost Federal dollars. Some congregations have organized special campaigns to urge their members to give half of their tax cut to a special fund for the poor.

These and other charitable efforts will continue to grow. However, the stark reality is that the available resources of the churches and synagogues, or of the entire private sector simply will not be sufficient to replace Federal human needs programs.

While our charitable efforts will continue, our response must also include a call to justice. Our biblical and historical traditions are founded on justice. Made in the image of God, the human person is endowed with a special dignity, a dignity which is protected by a fundamental set of basic human rights not dependent on charity alone.

Among these rights are the rights to those necessities which are required for proper human development -- food, clothing, shelter, medical care, employment and basic social services. Throughout religious social teachings, these rights are presented as a kind of base line -- a set of minimum conditions of natural well-being which must be met if human dignity is to be protected. The very reason for the existence of Government is to promote the common good by protecting these human rights.

When people are without employment, food, shelter and health care, it is not only proper, but required that Government intervene to assure these necessities. Government must fulfill its responsibility to ensure that the basic needs of all citizens are met. To abandon that role would constitute a threat to the dignity and lives of the poor.

The administration's expressed expectation that religious bodies will shoulder these burdens seems to us not only unrealistic, but also inappropriate. In the United States it is not the responsibility of Government to define the task of religious bodies. If anything, it is the responsibility of religious bodies -- as it is of other citizens' groups -- to define the task of Government. The charity of the religious community can only ease the burden of last year's budget cuts on the poor; it cannot resolve it. Furthermore, we believe it our duty to remind the Government of its fundamental obligation to social justice -- its responsibility to ensure that no citizen goes without the basic necessities for a dignified and decent human life.

Signed:

Father Daniel Hoye, general secretary
U.S. Catholic Conference

Rabbi Bernard Mandelbaum, executive vice president
Synagogue Council of America

Dr. Claire Randall, general secretary
National Council of Churches

Dr. Ronald Sider, president
Evangelicals for Social Action

Dr. Foy Valentine, executive secretary
Christian Life Commission, Southern Baptist Convention

March 31, 1982

Mr. PEASE. Ms. Flower from the Friends Committee on National Legislation.

STATEMENT OF RUTH FLOWER, LEGISLATIVE SECRETARY, FRIENDS COMMITTEE ON NATIONAL LEGISLATION

Ms. FLOWER. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before you today. My comments are going to be directed primarily at the aid to families with dependent children.

That program is the bottom line once there are no jobs, as we heard this morning. When unemployment benefits run out and when child support fails, you are left with the aid to families with dependent children. It is a very low bottom line, as I am sure this committee has already heard from a number of people.

I would like to comment on another part of the description of the kinds of people that receive this aid. The previous speaker talked about the children who received the aid. The rest, 30 percent, are the adults. These are the caretakers of those children.

Of those caretakers, 10 percent are disabled, 30 percent are already working or seeking work, and only 20 percent—who are those caring for school aged children—are not seeking work. That means that a maximum of 6 percent of all of the people receiving AFDC aid are even eligible for those workfare programs that are being proposed.

It is really a myth that we can put those people to work. These are the folks that we need to support with government benefits.

I would like to touch on just one or two of the cuts proposed by the administration. We are in opposition to all of the cuts, however.

One of the cuts is to reduce benefits for two-family households where the families live together in order to save some money. That is going to become even more necessary with the housing assistance cuts being proposed elsewhere in the budget by this administration.

In order to get any decent housing, families are going to have to move in together and we are going to be seeing a lot of that. When they do this, they then get their AFDC benefits cut. It is a Catch 22 that we hope this committee will put a stop to.

There is also a proposal to reinstate a version of the man in the house rule where in the old days they used to look under the beds to see who has been visiting. We would like never to see a return of that practice. In spite of any of the assumptions of budget drafters about the kind of money that could be saved by this move, the enforcement of any such rule can't help but violate the dignity and the privacy of the people receiving aid through these programs.

Two other proposals in the budget would remove the flexibility the system now has to respond immediately to families that are wiped out by some kind of disaster or are immediately needy as they move to a new community.

The emergency assistance would be wiped out completely. There is a new requirement that families seeking AFDC look for work before beginning benefits. They have to get these turndowns that someone mentioned earlier to show that they cannot, indeed, find

work—even with unemployment at the rate that it is now—before they can qualify for assistance of any kind.

The remainder of my comments are on the role of the churches. I frequently hear the suggestion that the churches "ought to get in there and do something about that." I would like to respond to those comments even though they have not been made by this committee.

The traditional role of feeding and housing and ministering to the needs of sick and old people has given birth to our views on social justice. That kind of work has brought us here to Washington to talk to you about social change. The two are very much interconnected.

While we are here as social change advocates, that continuing ministry goes on out in the field, and it is going on very strongly right now.

The direct services that are performed by church members have traditionally filled in where Government services have not been able to react as fast. It is church members that can get groceries to a family that only applied for food stamps on a Friday and have nothing to eat over the weekend. It is church members that provide emergency housing in basements when there is no other housing available.

That kind of thing has been going on before this administration proposed any cuts whatsoever. As of the 1982 budget cuts, churches are now reporting that they cannot keep up with the demands that they are experiencing.

I had a couple of examples to share with Mr. Matsui—I am sorry he is not here—but I did hear recently from Sacramento that the Salvation Army, in the last few weeks, has opened up its soup kitchen again. The line goes around the block.

Also in Sacramento, one of the large churches there had a food closet serving transient men. It is now serving families. They don't know where the families come from, but they do know that they are destitute.

This is the experience of the churches that we hear from nationwide. They do not have the resources to keep up even with the cuts in last year's budget.

One final point on the churches. As you saw this morning, with the number of people that were here that were unemployed from whole regions of various States, those are the church goers in those States.

Those are the people that support the charitable programs that the churches support. If something hits a region where there are construction workers or auto workers who are massively laid off, the church's budget goes right down with the rest of the community.

The churches may themselves be associations of people who are desperately in need. To a great extent, they can gather together to help themselves, but they cannot bring any vast amount of resources to bear on the problems that we all notice. For that we need the kind of resources that the Federal Government does have.

I would point out one final thing to you in my testimony, and I hope there are copies available.

I have a budget pie which shows the unified budget. The amount of money for programs for the poor is less than 10 percent of that budget. So, while we recognize the need to bring down the deficit and perhaps the need to cut somewhere in that budget, we do not recognize the need to cut 44 percent, as is proposed, out of those small programs.

We see a very large gray area in that pie. That is the military budget, and that is where we would like to see the cuts come from.

Thank you very much.

[The prepared statement follows:]

Statement of Ruth Flower on Behalf of the Friends Committee on National Legislation

I am Ruth Flower. I appreciate the opportunity to appear before you today on behalf of the Friends Committee on National Legislation, a Quaker-sponsored legislative action group. Although our general committee is made up of representatives of 26 Yearly Meetings (regional bodies) of the Religious Society of Friends, we do not purport to speak for all Quakers on this or any other issue.

The Friends Committee on National Legislation is gravely concerned about the present and future effects of the reduction in federal funds for income support programs. My testimony today will focus on Aid to Families with Dependent Children.

There has been much rhetoric about the need to cut federal spending and to tighten the belt. The Administration has called on us repeatedly to recognize that all sectors of society will have to make sacrifices in order to reinvigorate the economy. The attached budget pie (Figure I, accompanied by Table I) belies the rhetoric. Under the Administration's proposed 1983 budget, only 8.1% of total outlays will go to programs designed to serve the poor. The proposed funding for these programs represents a 44% cut from the current services level. Other social programs, on the whole, would be cut by only 1.5%. Military spending, of course, would increase, without any of the hard questions about need, cost-effectiveness or "fraud-waste-and-abuse" being applied to that section of the budget.

As one part of the religious community that has been very active in social justice efforts, the Friends Committee on National Legislation would support a cash-assistance program that honors family ties and, in so far as possible, preserves the dignity of the people receiving assistance. Aid to Families with Dependent Children is one of the very few programs that assists children through the family unit.

Who are these families? 79% of them are headed by women; 7% of those women are grandmothers. There are two children per family on the average.

Shouldn't these people work for a living? 70% of the recipients are children. The rest are their caretakers. Of the caretakers, 40% are caring for pre-school children. 10% are disabled, 30% are working or seeking work, and only 20% (who are caring for school-age children) are not seeking work. Of this last 20%, over half are either over 45 or have never been employed or both. That means that out of all recipients of AFDC, a maximum of 6% (or 20% of all caretakers) are candidates for any kind of "workfare" or job-search requirement. Yet the Administration's rhetoric implies that the "welfare problem" will be solved when the oppression of poverty becomes so intolerable that people who are otherwise disinclined to work will decide to find their own bootstraps and pull up.

Benefit levels on AFDC are very low. Even when AFDC is combined with food stamp benefits, there is no state in which poor families are raised to the poverty level by these government programs. In many states, the combined benefits amount to only half of the poverty line.

Benefit levels are determined separately by each state, based on the state's own calculation of the local "standard of need." The "need standard" is supposed to represent the minimum needed for survival by a family of a particular size. Only about half of the states allow benefits that meet this "need standard." Many have limits for larger families; many pay only a percentage of the level calculated for minimum survival. Even at this low level, AFDC benefits have not kept up with inflation. In real terms, the benefit level has fallen 24% between 1969 and 1980. This 24% comes out of grant levels which are already scraped to the bone.

According to the survey presented to this Committee by the American Public Welfare Association, cuts in the 1982 budget are affecting more than 725,000 people. 42% of these people lost eligibility; 58% had their benefits reduced. There were about 190,000 working families on AFDC who lost their benefits under the 1982 budget. In at least 20 states, loss of AFDC means the loss of Medicaid for one's children. In all, the federal government "saved" much less than it anticipated from last year's cuts, due in part to the effects of the recession.

The cuts proposed for this year would pull what's left of the rug from under the working households on AFDC and would threaten the survival of many others. We urge you to oppose:

* Reduction of benefits for two-family households. Elsewhere in the budget, the President proposes termination of the program that constructs new low-income housing units. Families will instead have to compete in the private market for scarce housing resources. One way of dealing with this situation is for two families to share a dwelling. Administration representatives have said that this reduction is proposed in recognition of the many economies realized in a shared living situation. It is true that shared living allows for some economizing. It is but one example of the many creative options that must be exercised by a family trying to keep body and soul together, with the help of government assistance programs which determine minimum survival levels and then allow only a percentage of that benefit level to recipients.

* Reinstatement of the "Man in the House" Rule. Whatever the assumptions of budget-drafters, the enforcement of any such rule cannot help but violate the dignity and privacy of families on welfare.

* Counting energy assistance as income. Usually families who qualify for energy assistance still end up paying more in energy costs than families in more temperate regions. Energy assistance does not cover the whole bill; the remainder comes out of amounts budgeted for food, shelter and other necessities. To count energy assistance as income is to compound the lie that

recipient families have control over the limited special resources they are allowed.

* Terminating a mother's AFDC grants when the youngest child turns 16. This proposal is based on the idea that the mother should get a job when the youngest child reaches this age. The rule, however, ignores the 10% of mothers receiving AFDC payments who are disabled, the 7% who are grandmothers (and who would face multiple discriminations in the job market), and the 30% already in the job market (whose wages are so low that partial AFDC assistance is still needed).

* Preventing needy families from receiving immediate assistance. The Administration proposal would abolish Emergency Assistance for Families which has been used to fill the gap when AFDC is not available to families who are suddenly and temporarily destitute. The proposed budget would also require families who qualify for AFDC to spend several weeks on a job search before receiving any medical care, food assistance or cash payments.

We urge this committee to reject any cuts in the AFDC program and to recommend funding at a level that would be adequate to provide at least the same benefits that are available under the 1982 budget. In order to maintain that level, it will be necessary to increase the 1982 AFDC budget figure to allow for inflation and for increased participation in the program due to rising unemployment.

The Role of the Churches

As a representative of a religious organization, I have heard the suggestion a number of times that "the churches" ought to take over the care of the poor. Although it is this Administration that is making that suggestion, this Administration did not, in fact, discover or invent that special concern for the churches. That assignment was already given a couple thousand years ago. I would like to set out several points on this issue for your consideration:

* The traditional role of church members in feeding, clothing, housing and ministering to the needs of poor people, sick people and old people has given birth to our views on social justice.

* While the churches, through their national offices and through many of their members across the country, advocate social change here in Washington, the work of direct service continues and expands.

* The direct services performed by church members have traditionally "filled in" where government programs were unable to respond. Churches have provided emergency shelter and food, supplemental clothing and school supplies, assistance with child care and educational and recreational programs for children. Now that poor people are experiencing reduction and elimination of basic benefits, churches are reporting that they are unable to keep up with the needs they see. The Salvation Army soup kitchen opened up again in Sacramento a few weeks ago and the line is more than a block long. Westminster Church in Sacramento reports seeing more and more families seeking food from the food bank; previously the customers were mostly transient single men. In Atlanta the Council of Churches estimated that every single congregation would have to increase its charitable contribution by $55,000 per year if they were to meet the needs created by last year's cuts. I have not heard a figure on the extent of that community's suffering from this year's cuts.

* The economy in some entire regions of this country is particularly depressed at this time. Regions, for example, that depend heavily on construction or on the automobile industry are experiencing unemployment rates such as they haven't seen since the 1930's. Long-term unemployment means that more people need more assistance. The church-goers in these regions suffer from the same economic slumps as their neighbors. It is ludicrous to suppose that "churches" enjoy immunity from the general social problems of the community. "Churches" may indeed be associations of people who are desperately in need of assistance for themselves and their families.

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Figure I

1983 BUDGET PROPOSAL -- OUTLAYS

THE UNIFIED BUDGET

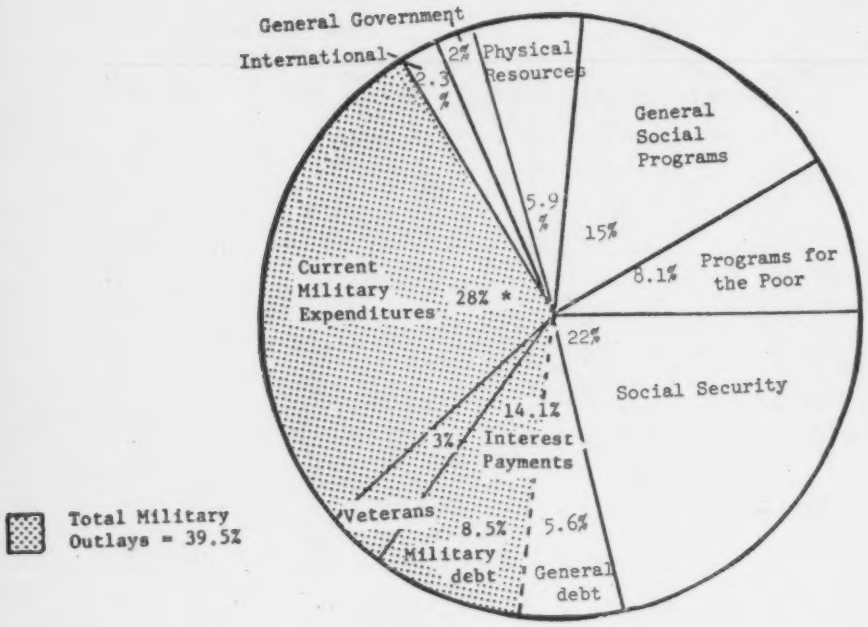

TABLE I. Outlays by Function in the

1983 UNIFIED BUDGET

	($ millions)		% of Outlays
Current Military			
National Defense - Function 050	221,068		
International - Function 150			
Security Assistance except Economic Support Fund			
Military Sales	1,399		
	222,467	=	28%
Past Wars			
Veterans - Function 700	24,383	=	3%
Interest - Function 900 (60.4%)	67,972	=	8.5%
General Interest - Function 900 (Remainder)	44,564	=	5.6%
International & Space			
International - Function 150 (Except as above)	10,569		
Space - Function 250	7,633		
	18,192	=	2.3%
Physical Resources			
Energy - Function 270	4,215		
Resources - Function 300	9,917		
Agriculture - Function 350	4,494		
Commerce - Function 370	1,591		
Transportation - Function 400	19,628		
Community and Regional Development - Function 450	7,263		
	47,102	=	5.9%
Programs for the Poor			
Food Assistance - Function 600	13,772		
Aid to Families with Dependent Children - Function 600	5,863		
Supplemental Security Income - Function 600	8,902		
Housing Assistance - Function 600	8,884		
Energy Assistance - Function 600	1,300		
Medicaid - Function 550	17,076		
Indian Health - Function 550	672		
Training and Employment - Function 500 [a]	2,196		
Educational Assistance - Function 500[b]	6,004		
Legal Aid - from Function 800	13		
	64,682	=	8.1%
Social Security - from Function 600	173,536	=	22%
General Social Programs			
Remainder of Function 500 - Education, Training, Employment Offices, Social Services	13,552		
Remainder of Function 600 - Misc. Retirement programs, unemployment insurance, administration	49,479		
Remainder of Function 550 - Medicare, Health research, administration	60,357		
	123,388	=	15%
General Government - Functions 750, 800 & 850	16,486	=	2%

[a]Training and Employment: Includes all except funding for employment offices and "other".
[b]Educational Assistance: Includes Education for the Disadvantaged (Title I), Indian Education, Pell Grants, Campus-based Aid.

Mr. PEASE. Thank you very much, Ms. Flower.

The next witness is Mr. Kelly Chatman, assistant director of Community Justice Ministries of the Lutheran Social Services, National Capital Area and the Lutheran Council in the U.S.A.

I didn't turn the machine on until I got through with that because I didn't want to take half your time. Go ahead, thank you for being with us.

STATEMENT OF KELLY CHATMAN, ASSISTANT DIRECTOR, COMMUNITY JUSTICE MINISTRIES, LUTHERAN SOCIAL SERVICES, NATIONAL CAPITAL AREA, AND LUTHERAN COUNCIL IN THE U.S.A.

Mr. CHATMAN. Thank you, and I will repeat: My name is Kelly Chatman, and good afternoon. I serve as assistant director for the Community Justice Ministries of Lutheran Social Services in the National Capital Area.

I am grateful for the opportunity to testify before this subcommittee on the administration's proposal for the 1983 fiscal year, which would make fundamental changes in aid to families with dependent children and other income maintenance programs.

I am testifying on behalf of three member church bodies of the Lutheran Council in the U.S.A. They are the American Lutheran Church, the Lutheran Church in America, and the Association of Evangelical Lieutenants.

These Lutheran Church bodies have asked me to represent them today because my work brings me into contact with many people who rely on programs under the jurisdiction of your committee.

The emergency services of my agency which includes counseling, loan assistance, and food supplies for low income families, assist a high percentage of AFDC recipients.

Through our agency, I am in a position to see the faces of those affected by recent budget cutbacks rather than merely numbers on a page or cost savings.

We share the concern that the administration's fiscal year 1983 proposal would again hit hard the working poor removing the work incentives which are essential to the AFDC program.

To counter disposable income payments designed to help low-income families pay for high costs of heating their homes undermines the intent of the energy assistance program.

The resultant reductions in benefits would push deeper into poverty, children and their low-income mothers who rely on AFDC for their subsistence.

As you know, the low-income energy assistance program was established to help low-income households offset the huge increases in home energy costs resulting from actions taken by the oil-producing countries and by the Federal Government to decontrol the price of oil and phase in deregulation of natural gas prices.

The wisdom of assisting the poor in this manner is supported by the recent increases in energy costs. If a family had a fuel oil bill of $100 in 1973, today for the same amount of energy they pay over $600.

A natural gas bill of $100 in 1973 is now more than $400. An electric bill of the same amount in 1973 would now cost nearly $300.

Low-income households spend an average of 25 percent of their disposable income on home energy costs, nearly five times the proportion the average U.S. household pays.

Average energy costs are greater than $1,000 per year for low-income households in 21 States. AFDC payments have not kept up with these nondeferrable household expenses. The administration's proposal to count energy assistance as income in determining benefit levels for AFDC and food stamps, goes far beyond reducing program overlap.

The energy assistance would effectively be eliminated for poor families receiving AFDC by this change. In reality, there is no overlap. Energy assistance is not a resource to meet the cost of items provided for in the AFDC grant.

It is provided as a supplement to AFDC and other income in recognition of a poor family's inability to meet soaring energy costs. In fact, States consider AFDC payments in determining a family's eligibility for energy assistance to count energy assistance back against the AFDC benefits hits families with a double whammy and effectively deprives them dollar for dollar of needed help to heat their homes.

Last year, the program was cut by $100 million, lowering already minimal benefits. At the same time, included in last year's tax bill was a cut for oil companies that will decrease the windfall profits tax receipts by $12 billion, a sum that would go a long way toward providing energy cost relief to the poor.

This year, the administration has proposed only $1.3 billion to keep the poor warm. This represents a cut of more than one-quarter from the total fiscal year 1982 appropriation and is even lower than what was sought last year.

In conclusion, I would like to address just for a moment the role of the churches and the Government in addressing the needs of the poor in our society.

As Lutherans, we believe that in response to the Gospel, the church must use its material and human resources to deal with the immediate needs of the poor, empower them to move from dependency to self-sufficiency, and address the root causes of economic deprivation.

The Lutheran churches and their social service agencies have individually and in partnership with Federal and State Governments worked to address the needs of the poor.

However, benevolence by individuals, churches and other voluntary organizations is limited and, because it cannot be compelled, may be inconsistent.

We do not possess the power or the resources to address adequately the pervasive social problems which are the product of this highly mobile and rapidly changing society. We lack the structural mechanisms to deal with the complex needs of the poor and to insure that individuals throughout the country do not slip into what can be major gaps in service.

In this regard, the experience of the voluntary sector in dealing with the initial cuts in social programs made last year has already

revealed the limitations of voluntary agencies in handling the increased demands for service.

The deep cuts being proposed this year would further intensify the current difficulties. In the fact of continuing inequities of wealth and power, justice demands that the needs of the poor and others on the margins of society be consistently met.

Since people do not always seek what is best for their neighbor, the guarantees and enforcement of the law in this area are necessary.

The Government, we believe, is responsible for providing a basic floor of benefits at an adequate level for health and decency. The bevevolent actlvities of individuals and voluntary organizations, like the church bodies which I represent, can complement, but never replace, the responsibility of the Goverment to establish social justice in this and other areas.

We look forward to working with you until this goal is met, Mr. Chairman, and thank you for the privilege of being with you today.

Mr. PEASE. Thank you, Mr. Chatman.

[The prepared statement follows:]

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Statement of the Lutheran Council in the U.S.A., Presented by Kelly Chatman, Assistant Director, Community Justice Ministries

My name is Kelly Chatman and I serve as the Assistant Director of Community Justice Ministries of the Lutheran Social Services, National Capital Area. I am grateful for this opportunity to testify before this subcommittee on the Administration's proposals for the 1983 fiscal year which would make fundamental changes in Aid to Families with Dependent Children (AFDC) and other income maintenance programs. I am testifying on behalf of three member church bodies of the Lutheran Council in the U.S.A.:

> The American Lutheran Church, headquartered in Minneapolis, Minnesota, composed of 4,800 congregations having approximately 2.4 million members;
>
> The Lutheran Church in America, headquartered in New York, New York, composed of 5,800 congregations having approximately 2.9 million members in the U.S. and Canada; and
>
> The Association of Evangelical Lutheran Churches, headquartered in St. Louis, Missouri, composed of 270 congregations having approximately 110,000 U.S. members.

These Lutheran church bodies have asked me to represent them today because my work brings me into contact with many people who rely on programs under the jurisdiction of your subcommittee. The emergency services of my agency, which includes counseling, loan assistance, and food supplies for low-income families, assist a high percentage of AFDC recipients. Through our agency, I am in a position to see the faces of those affected by recent budget cutbacks, rather than merely numbers on a page, or "cost savings."

Others on this panel will be focusing on the difficulties which would result from the proposed changes in the AFDC program, an often overstated and misunderstood program for which the federal monetary share is less than one percent of the total federal budget -- about $6 billion. We share their concern that the Administration's FY 1983 proposal would again hit hard the "working poor," removing the work incentives which are essential to the AFDC program.

To avoid duplication, I would like to focus on a significant change being proposed by the Administration in the AFDC program which would require states to count federal or state energy assistance payments as income when calculating benefit levels. According to the Administration, this change would reduce program overlap and take into account existing resources in determining benefits; it would result in a savings of $175 million. However, counting as disposable income payments designed to help low-income Americans pay for the high costs of heating their homes undermines the intent of the energy assistance program; the resultant reductions in benefits would push deeper into poverty children and their low-income mothers who rely on AFDC for their subsistence.

As you know, the low-income energy assistance program was established to help low-income households offset the huge increases in home energy costs resulting from actions taken by the Oil Producing Export Countries (OPEC) and by the federal government to decontrol the price of oil and phase-in deregulation of natural gas prices. The wisdom of assisting the poor in this manner is supported by the recent increases in energy costs. If a family had a fuel oil bill of $100 in 1973, today for the same amount of energy they pay over $600; a natural gas bill of $100 in 1973 is now more than $400; an electric bill of the same amount in 1973 would now cost nearly $300. Low-income households spend

an average of 25 percent of their disposable income on home energy costs -- nearly five times the proportion the average U.S. household pays. Average energy costs are greater than $1,000 per year for low-income households in 21 states. AFDC payments have not kept up with these non-deferable household expenses.

The Administration proposal to count energy assistance as income in determining eligibility and benefit levels for AFDC -- and also for food stamps -- goes far beyond "reducing program overlap." Energy assistance would effectively be eliminated for poor families receiving AFDC by this change. In reality, there is no overlap -- energy assistance is not a resource to meet the cost of items provided for in the AFDC grant. It is provided as a supplement to AFDC and other income in recognition of a poor family's inability to meet soaring energy costs. In fact, states consider AFDC payments in determining a family's eligibility for energy assistance -- to count energy assistance back against AFDC benefits hits families with a "double whammy" and effectively deprives them dollar for dollar of needed help to heat their homes.

The scope of the existing low-energy assistance program is modest, in view of need and funding levels. Last year, the Administration proposed a funding level of $1.4 billion in the form of a consolidated block grant that would have provided no targeting, priorities, or accountability. Although this plan was rejected, the funding level was cut back by $100 million, lowering already minimal benefits. At the same time, included in last year's tax bill was a tax cut for oil companies that will decrease the Windfall Profits Tax receipts by $12 billion, a sum that would go a long way toward providing energy cost relief for the poor.

This year the Administration has proposed only $1.3 billion to help keep the poor warm. This represents a cut of more than one-quarter from the total fiscal year 1982 appropriations, and is even lower than what was sought last year.

At the same time, the Administration is encouraging higher energy prices, believing that this is the only effective way to achieve conservation. The poor, who clearly cannot afford market prices, are faced with utility terminations and a day-to-day survival question of "heat or eat." While those able to afford it are rewarded with tax breaks for "weatherizing" their homes, poor families, many of whom live in substandard housing units which are inadequately

insulated, are facing higher bills and a further reduction in federal assistance which they have relied on in the past.

I urge you to seek a funding level for low-income energy assistance programs which would take into account last year's increases in natural gas prices of 20 percent, and in oil prices of 11 percent, to insure that, at the very least the eight million households served last year will be adequately heated once again. I also urge you to reject the changes being proposed by the Administration for the AFDC program which would unjustly penalize those in greatest need by computing energy assistance as countable income.

These cutbacks in energy assistance programs are all the more inequitable when viewed in the context of other administration recommendations. As the national heads of the churches I am representing have recently asserted:

> "The drastic reduction in social spending proposed for the 1983 fiscal year represents a withdrawal from the national commitment to meet the fundamental needs of the poor and a shrinking of the 'social safety net.' Cuts in the basic nutrition, housing, medical, welfare, and jobs programs for the poor will create serious hardships for those who are truly in need of assistance, including the elderly poor, the disabled, dependent children and their low-income mothers...While programs servicing the poor are being asked to bear a disproportionate burden in the drive to reduce the deficit, the Administration is proposing the largest peacetime increase ever in military spending...Further, many of the programs and tax benefits for middle- and upper-income citizens would remain intact or be touched only lightly by budget changes. This nation faces hard decisions concerning both the spending and revenue aspects of the federal budget. We reject, however, an analysis which asserts that the nation has no <u>choice</u> but to cut social spending for the poor."

Additional statements on this subject which have been made by the church bodies which I represent are attached to my statement.

In conclusion, I would like to address just for a moment the role of the churches and of the government in addressing the needs of the poor in our society. As Lutherans, we believe that in response to the Gospel, the church must use its material and human resources to deal with the immediate needs of the poor, empower them to move from dependency to self-sufficiency, and address the root causes of economic deprivation. The Lutheran churches and their social service agencies have individually and in partnership with the federal and state governments worked to address the needs of the poor.

However, benevolence by individuals, churches and other voluntary organizations is limited and, because it cannot be compelled, may be inconsistent. We do not possess the power or the resources to address adequately the pervasive social problems which are the product of this highly mobile and rapidly changing society; we lack the structural mechanisms to deal with the complex needs of the poor and to ensure that individuals throughout the country do not slip into what can be major gaps in service. In this regard, the experience of the voluntary sector in dealing with the initial cuts in social programs made last year has already revealed the limitations of voluntary agencies in handling the increased demand for services. The deep cuts being proposed this year would further intensify the current difficulties.

In the face of continuing inequities of wealth and power, justice demands that the needs of the poor and others on the margins of society be consistently met. Since people do not always seek what is best for their neighbor, the guarantees and enforcement of law in this area are necessary. The government, we believe, is responsible for providing a basic floor of benefits at an adequate level for health and decency. The benevolent activities of individuals and voluntary organizations, like the church bodies which I represent, can complement, but never replace, the responsibility of government to establish social justice in this and other areas. We look forward to working with you until this goal is met.

Thank you for the privilege of being with you today.

Appendix A

THE NEEDS OF THE POOR AND THE PROPER ROLE OF GOVERNMENT:

A Statement by Lutheran Leaders on the Federal Budget Debate

As Congress and the Reagan Administration fashion the federal budget for the 1983 fiscal year, fundamental changes in the role of government generally and the federal government in particular are being debated. The nation is asked to reconsider which activities we will corporately finance and which fundamental social rights we will guarantee. The Administration is proposing a budgetary and legislative program which questions the validity of the government's role in the social arena. It is urging Congress to make cuts in social programs which would substantially reduce the standard of living for many low-income Americans. Decisions facing Congress this year could change fundamentally the nature of our corporate commitment to the poor and the character of our national life.

The Role of Government. Lutherans have important insights to contribute to the current public policy debate over the proper role of government. According to Lutheran theology, government is part of God's creating and sustaining order and plays a positive role by supporting the good and restraining evil. While specific governments may become instruments of evil, government under God is called to maintain peace, establish justice, protect and advance human rights, and promote the general welfare of all in society. Government's role includes more than simply providing for the common defense or using its coercive power to restrain lawbreakers. Government appropriately guarantees all citizens equal opportunity for self-development and upholds the rights of those who by reason of race, age, health, ability, or social standing are at the margin of our economic and social system.

All persons in society are entitled to that which is necessary to lead a healthful existence. Employment for all able to work, with remuneration sufficient to provide the minimum of what is needed for full participation in society, is essential to the well-being of the nation. When employment is not possible, society properly provides for individuals an income adequate to achieve at least a minimal living standard.

In our democratic society, ensuring that the basic human needs of children, the elderly, the disabled, and the poor are met requires the commitment of the community as a whole and the interaction of all institutions--government, churches, other voluntary agencies, and business. Government does not possess a monopoly on the provision of social services but rather seeks to establish the welfare of all citizens through the most effective and appropriate channels.

Church/Government Interaction. In response to the Gospel, churches play a vitally important role as they use their material and human resources to deal with the immediate needs of the poor, empower them to move from dependency to self-sufficiency, and address the root causes of economic deprivation. Hospitals, social service agencies, educational institutions, and community organizations supported by Lutherans and other voluntary groups play an essential role as innovative providers, enablers, and advocates for those in need.

However, benevolence by persons, churches, and other voluntary organizations is limited and, precisely because it cannot be compelled, may be capricious and inconsistent. Voluntary agencies do not possess the power or the resources to address adequately the pervasive social problems which are the product of this highly mobile and rapidly changing society. Often they lack the structural mechanisms to deal with the complex needs of the poor and to ensure that individuals throughout the country do not slip into what can be major gaps in service.

In the face of continuing inequities of wealth and power, justice demands that the needs of the poor and others on the margins of society be consistently met. Since people do not always naturally seek what is best for their neighbor, the guarantees and enforcement of law in this area are necessary. The government is responsible for providing a basic floor of benefits at an adequate level for health and decency; it is to ensure that no one is forced to go hungry or homeless and none are deprived of adequate medical care. The benevolent activities of individuals and voluntary organizations complement, but in no way replace, the responsibility of government to establish social justice.

Budget Choices. High inflation and unemployment and the increasing federal deficit defy easy solutions. As these serious economic problems force the

nation to reorder its spending priorities, the church, as advocate for the poor, must press society to deal equitably with those in need and to fulfill its fundamental commitment to them.

The drastic reduction in social spending proposed for the 1983 fiscal year represents a withdrawal from the national commitment to meet the fundamental needs of the poor and a shrinking of the "social safety net." Cuts in the basic nutrition, housing, medical, welfare, and jobs programs for the poor will create serious hardships for those who are truly in need of assistance, including the elderly poor, the disabled, dependent children and their low-income mothers. Those who hold jobs but earn too little to rise out of poverty will experience severe reductions in their already meager standard of living. Some proposals will drive further into poverty those who are just now beginning to grasp the bottom rung of the economic ladder.

Proponents of reductions in federal social spending suggest that the states have the option of picking up the slack and providing needed services for the poor. But there is little indication that most states will be willing or able to do so. Underlying the proposals to cut government spending is the assumption that it is really the churches and the private sector which have primary responsibility to meet human needs--and that they posses the inclination and resources to accomplish this end. The experiences of our churches and the private sector in dealing with the initial cuts in social programs made in 1981 have already revealed their limitations in handling the increased demand for services. The deeper cuts being proposed would further intensify current difficulties.

While programs serving the poor are being asked to bear a disproportionate burden in the drive to reduce the deficit, the Administration is proposing the largest peacetime increase ever in military spending. Given existing fiscal pressures, more nuclear and conventional arms would be bought at the expense of the programs assisting the poor. Further, many of the programs and tax benefits for middle- and upper-income citizens would remain intact or be touched only lightly by budget changes. This nation faces hard decisions concerning both the spending and revenue aspects of the federal budget. We reject, however, an analysis which asserts that the nation has no choice but to cut social spending for the poor.

As the nation waits to see if the Administration's economic program is successful, the poor remain in critical need. During this time, we fear that serious instances of injustice will occur if the programs for the poor are dismantled without the assurance that fundamental needs of the most vulnerable will be met. Such a course of action would achieve short-range fiscal gains. But cutbacks in basic nutrition, housing, medical, and other social services for the poor would in both the short and long term undermine the ability of those at the margins of society to participate as full and responsible members. We would thus be diminishing the well-being of society as a whole.

Lutheran Involvement. In this time of economic difficulty, we call upon Lutheran citizens, congregations, and agencies to redouble their efforts to address the very real needs of the poor in their communities and to explore new ways of responding more creatively and effectively through programs which lead to economic self-sufficiency. Given our churches' historical involvement in this area, our churches and their members should be in the forefront of increased efforts to develop new models for improved delivery of services.

While our churches are meeting immediate human needs through direct services in their communities, they should also work with government to ensure that the unmet needs of the poor throughout the country are addressed and to eliminate root causes of poverty. We call upon Lutheran citizens, congregations, and agencies to bring the wealth of their experience and insights to the federal budget debate.

Lutherans and others of good will may differ on economic assumptions, political positions, and specific ways of dealing with those in need. Yet we share a fundamental commitment to ensuring that the poor are dealt with justly by our society in its national budget decisions.

DAVID W. PREUS, Presiding Bishop
The American Lutheran Church

JAMES R. CRUMLEY, JR., Bishop
Lutheran Church in America

WILLIAM H. KOHN, President
Association of Evangelical
Lutheran Churches

JOHN R. HOUCK, General Secretary
Lutheran Council in the USA

In adopting *A Call to Affirmation of Human Values*[2] The American Lutheran Church in 1972 observed "with deep concern" that:

> —an increase in unemployment has been accepted in order to curb inflation without adequate provision having been made for the livelihood of those removed from gainful employment;
>
> —welfare reform proposals designed to assure minimum standards of adequate food, clothing, shelter, and medical care for all the nation's people while providing proper incentive for self support are in the process of emasculation and corruption into punitive measures of oppression and want;

"In the face of this critical situation" the 1972 General Convention called upon every segment of The American Lutheran Church "to rededicate and recommit efforts to the solution of these crucial problems, to overcoming these evils, and to the achievement of human values and goals."

This Reformation is unfinished!

Excerpted from "The Unfinished Reformation," a statement adopted by the Tenth General Convention of The American Lutheran Church, 1980

Appendix C

The church, solely through the free exercise of its divine mandate, relates to the interests of the state in such ways as 1) offering intercessory prayers on behalf of the state and its officials; 2) encouraging responsible citizenship and government service; 3) helping the state to understand and holding the state accountable to the sovereign law of God; 4) contributing to the civil consensus which supports the state in fulfillment of the duties of just government; and 5) championing the human and civil rights of all citizens.

The state, on the other hand, by fulfilling the duties of just government, relates to the interests of the church in such ways as 1) guaranteeing religious liberty for all; 2) acknowledging that the rights of man are not the creation of the state; 3) maintaining an attitude of "wholesome neutrality" toward church bodies in the context of the religious pluralism of our culture; 4) acting on a nonpreferential basis if providing incidental benefits in recognition of the church's civil services which also make a secular contribution to the community; and 5) acting on a nonpreferential basis if offering financial aid for educational or social services which church agencies render for the secular benefit of the community.

Excerpted from "Church and State A Lutheran Perspective," a social statement adopted by the Third Biennial Convention of the Lutheran Church in America, 1966.

Appendix D

We approve of declarations of public policy in our own countries (U.S.A. and Canada) which seek to eliminate the paradox of poverty in the midst of plenty and further seek to open to everyone opportunities for education and training, for work, and for living in decency and dignity.

We believe that in nations where conditions of abundance exist, it should be the goal of the national economy to provide every able-bodied adult with the opportunity for meaningful employment sufficiently remunerative to secure, at the very least, the minimal necessities required in our society for living in decency and dignity. Further, where a full employment economy is not possible or not desirable, or where individual inadequacies exist, we believe our countries have the responsibility to move as readily as possible to assure income adequate to secure the minimal standard of living.

We believe that although the establishment of social justice is primarily a responsibility of governing authority, it is appropriate that innovative programs designed to counteract the causes of economic deprivation be enacted by any agencies having such responsibility.

We are reminded by the "revolution of rising expectations" of the universal dimensions of the present challenge to eradicate poverty. Any commitment to the elimination of domestic poverty must be accompanied by a commitment to seek justice in the reduction of the disparity between rich and poor nations by programs designed to assist the developing nations to raise their standard of living.

Excerpted from "Poverty," a social statement adopted by the Third Biennial Convention of the Lutheran Church in America, 1966.

Appendix E

The Role of Government in Social Welfare

It is a proper function of the state, under God and in the furtherance of justice, to promote the general welfare. Since man does not always naturally and readily seek the good of his neighbor, the guarantee and enforcement of law is required.

A distinction must be made, however, between the view which sees the state as an omnipotent power giving out of beneficence and that which sees it as a responsible government seeking human welfare in justice and equity. The former might be capricious while the latter would be consistent and dependable.

As a contribution to the present debate in the United States on governmental programs in social welfare, the Lutheran Council in the U.S.A. sets forth the following affirmations:

I. The present governmental social assistance programs are in need of critical review and revisions so that the cycle of poverty may be broken and the poor enabled to become full participants in the privileges and responsibilities of society.

In the review called for in this affirmation, we urge that consideration be given the following:

1. Elimination of the categories in the social assistance programs and establishment of the single criterion of financial need;
2. Adequate provisions for assuring incentives in moving off public assistance for those for whom this is possible;
3. Inclusion of the working poor by making grants supplementary to earnings on a gradually reducing basis to encourage the poor to become self-maintaining and eliminate inequity of treatment between those who work and those who do not;
4. Provision of a basic floor of financial benefits by the federal government at an adequate level for health and decency;
5. Development of effective job training programs and related services such as day care centers, homemaker services, family planning, health maintenance, and vocational counselling;
6. Assurance that a mother with sole responsibility for her children will not be required to accept employment against her own best judgment as to that which is best for the welfare of the children;
7. Protection against possible abuse of mandating employment.

Excerpted from "The Role of Government In Social Welfare," a Position Statement adopted by the Fourth Annual Meeting, Lutheran Council in the U. S. A.

Mr. PEASE. I think I would like to address just one question to the panel. These cuts are the result of our American democratic process at work. We had an election in 1980, and one of the candidates represented that social spending was going too far, had gotten out of hand, it was a fraud and a waste, and the people needed to be able to keep their money in form of lower taxes, rather than using it to support others.

That candidiate won the election, and a lot of people voted for him, myself not included.

But I have the strong impression that there were a lot of middle-class members of the kinds of churches that you represent among the group that voted for Mr. Reagan in 1980 in the belief that it was time to "get the Government off the backs of taxpayers and trim back on allegedly excessive social spending."

I am appreciative and heartened by your support today. I guess as a politician, I am curious to have your impressions as to whether there has been any change in attitude among the middle class, well-off members of your churches, over the past years.

Mr. Burke?

Mr. BURKE. We have had several things happen. One thing that is unique is that we find the more well-to-do churches of our constituency who traditionally gave to the poorer churches in the inner city and the rural poor, are now drawing their money back because they now have in their own congregation the displaced, the unemployed and those that are needy themselves.

I think they voted against themselves, if you must know, in answer to your question. And so, there is a concern because in 1 year we see a 60-percent increase in the demands on food banks of the ones we handle.

I can give you an example like the Interfaith Hunger Committee in Houston. In 1981, it disbursed 66 percent more food than it did in January and February for the year before.

In New Orleans, we have this same kind of demonstration of increase of demand upon the churches. The churches complemented the governmental action. I think that is why we got the government into doing some of this, because the voluntary sector recognized back in the thirties that this couldn't happen.

The voluntary sector couldn't pick it all up. So, we are seeing a greater demand with lesser resources is what I am saying.

Mr. PEASE. Ms. Flower?

Ms. FLOWER. I can comment on behalf of some Quakers at any rate. Quakers are not of one party, although they are of one mind on many things. I think two things have happened, one is there were many that we heard from at the time of Mr. Reagan's election that there was some hope that there would be some economic change necessary in this country. That hope has been abandoned.

Things are much worse now than they were when Mr. Reagan came in and his program has not worked. That has turned a lot of people around.

Another thing that I think is happening was reflected in one of the Gallup polls recently, where people were asked whether they supported welfare programs and they said no. They were asked whether they supported help for the needy people and they said yes.

So I think there has been an impression of a lot of fraud and abuse. These myths go around an awful lot. So it appears that if you say welfare, you are talking about people who are cheating the government, but if you are talking about taking care of needy people, people bring to mind the folks that they saw when they did their stint at the food bank or when they helped pack clothes for the needy.

And I think that is where people's hearts are. They do want to help the needy.

Mr. PEASE. Thank you.

Mr. Chatman.

Mr. CHATMAN. My response would be that many of the people in my church body have been supporting efforts to those that are needy for some period of time. Presently, there is a polarization that seems to be within our church body of folks who feel strapped in their commitment to assist those that are needy, and those persons that want to maintain an effort toward supporting the President or the administration.

The balance that was once there is not as clear as it was before. It has divided us.

Mr. PEASE. Well, I am curious to know that because I really believe that a democracy works and in a democratic society, ultimately what the Congress does has to be consistent with what the people believe and want.

Quite clearly, in 1980, they had a certain set of beliefs and they acted on them. I guess the question in my mind is have they really changed over the last two years?

Thank you very much. I appreciate your testimony.

The next panel will consist of Roxanne Jones and Ellen Vollinger.

The same 5-minute rule will prevail. We will ask first for the testimony of Roxanne Jones, executive director, Philadelphia Citizens in Action.

STATEMENT OF ROXANNE JONES, EXECUTIVE DIRECTOR, PHILADELPHIA CITIZENS IN ACTION

Ms. JONES. Mr. Chairman, and members of the subcommittee, I thank you very much for having this opportunity on behalf of the downtrodden of this Nation to come before you, because it seems I am here to talk about the people that very few people seem to really care about.

I come before you today from Pennsylvania, where hundreds of thousands are desperately jobless in every part of our State: Farms, small towns, suburbs and the big cities.

I come before you today from Pennsylvania, where the Governor has just torn the last threads of the "safety net" to shreds for 100,000 jobless recipients of State assistance.

I come before you today from Pennsylvania, which will implement its own "workfare" program this summer for State and federally assisted recipients.

I come before you today from Pennsylvania, where nearly 100,000 poor and working families have been purged from the wel-

fare rolls or have had their benefits reduced because of the new Federal laws.

Excuse me, I find it very hard to talk when I am talking and I don't get people's attention. If you would do that for me, it would be easier for me.

Chairman FORD. All right.

Ms. JONES. When these numbers remain faceless, it must be easier for Congress and the President to consider further cuts. Today, I will provide you in writing with true cases of individuals whose lives have been deeply affected by the new laws.

The legislation passed by Congress does not occur in a vacuum. In considering this year's cuts, you should keep in mind that our communities are faced with not only last year's Federal cuts, but also cuts at the State and local level.

Out Republican Governor, Dick Thornburgh, just succeeded in getting the State legislature to cut off general assistance for all "able-bodied" adults between the ages of 18 and 45. General assistance is our State-financed welfare program which pays an individual $172 each month. At least 100,000 people will be denied their only means of survival because of this measure.

Unless they turn to crime, the only way for these folks to survive is to rely on family or friends. Jobs are, at best, a slim hope, with unemployment nearing 11 percent in the city of Philadelphia and with unemployment nearing 30 percent in the rural counties.

But, if this year's administration proposal passes, people will be cruelly penalized for trying to help their family and friends. By working up various ways to cut a needy family's AFDC because they live with other people, the administration puts a tax on human kindness.

While Ronald Reagan may feel comfortable turning his back on the poor, the people in my organization and in my community will never be so stingy. Poor people have always relied on one another when times were hard, and now is no exception.

In particular, I am talking about proposals which would: One, require States to pay less than full benefits whenever an AFDC family lives in a household with others; two, count income of all unrelated adults living in the household as available to the AFDC child, and three, count income to non-AFDC children as available.

Not only do cuts like those initiated by Dick Thornburgh cause people to double up, for times, in general, are hard. Housing is getting more and more difficult to find. People are being forced to double up and to take in relatives and friends.

These proposals to cut already inadequate grants is just one more illustration of the meanness of this Administration. I urge you to reject these proposals.

Yes, we will have a workfare program in Pennsylvania starting this summer, in theory. I say "in theory" because only 2 days after the legislation passed, the majority leader of the State senate let slip the insincere and political nature of their actions.

He said that few, if any, "workfare" jobs would be created because welfare recipients are "high risk employees." Our legislature had no intention of doing anything except to beat upon the old myths about welfare recipients so that they could be reelected.

Gentlemen, workfare is nothing but a cheap, political maneuver to sidestep the real problem, no jobs, and we need jobs.

I want you to understand that I am angry and I am frightened. Daily, I see in my community the hundreds of young people who cannot find work, in many instances, their first jobs.

What stake can they have in their community, their society or their Nation when they are being denied participation? Daily, I see men and women who have worked all of their lives who can find no work, any work at all, to support their families. And daily, I see our elderly citizens more and more frightened of losing, because of crime, everything they worked so hard for.

Do not turn your backs on these people. Do not continue to punish them for being jobless. Do not continue to punish them for being poor.

Finally, I urge you to believe, and to act upon, what I believe, that the people of this country are not mean spirited. I believe that, whatever their religion, they understand Matthew, 25th chapter, and the 40th verse, "as you did it to one of the least of these brethren, you did it to me."

Thank you, sir, I hope the next time I have an opportunity to testify before a so-called subcommittee that the subcommittee members will be present, and thank you.

Mr. MATSUI [presiding]. Mrs. Jones, let me respond to that, if I may. I appreciate your testimony very much, and the fact that you have taken your time to be here today. The members of the subcommittee are very sensitive to the problems that we have today.

They would like to be here, but because of other subcommittees and other commitments that members have made, some of which may have been 2 or 3 weeks in advance, they are not able to be here. We are trying to do the very best that we can as members of this subcommittee to be able to continue these hearings and try to set up a situation where we are able to take turns in chairing the hearings.

I appreciate you concerns. Your statements were made for the record, and all members of the subcommittee and their staff will have your statements. They will be available for us to study before we make any of the monumental decisions that you speak of.

Ms. JONES. I respect what you are saying, but you must realize as a poor person traveling a long distance, coming, hoping to be able to look people in the face and to express as a poor person on behalf of many others in this country, it is quite frustrating.

As I mentioned earlier, I have enclosed in my testimony some pure and true examples of people who went to work who were lazy, shiftless welfare recipients, and because of Reagan, were cut off, and it shows clearly they would have been much better off if they stayed on inadequate welfare, because they are now with nothing.

[The information follows:]

LAURA V (four children, works part time)

Gross earnings (part time)	$604.80
Deductions (taxes, union dues, retirement, and medical insurance)	-241.80
Net earnings	$363.00

Previously welfare would have given: $80 + medical card

Now welfare gives: $00 + no medical card

Expenses

Mortgage	146
Electricity	65
Water	20
Gas	90
Telephone	7
	$328
Bus tokens for school	50
Bus tokens for work	33
TOTAL	$416

If Laura didn't work, she would receive $382 + medical card. Now she works, hoping to get full time work, and she gets nothing.

ELLEN C (three children, works full time in a laundry)

Gross Income	$662
- taxes	-130
	532
-union dues	- 10
	522
-child care	-215
	307
-car fare	- 30
NET INCOME	$277

Expenses

Rent	200
Electricity	50
Gas	50
Coal	40
Food	200
Clothing	50
	$590 (not including work expenses)

Ellen also has medical expenses for children; one child is a diabetic and needs insulin.

If Ellen didn't work, she would receive $382 + medical card. Now she works, and she gets nothing.

ELIZABETH F (two children, works part time)

Gross Income	$409
Deductions	-169
	240
Car fare	- 30
NET INCOME	210

Expenses

Rent	180	
Telephone	18	
Food	100	
Clothing	50	
Miscellaneous	20	
TOTAL	368	(not including work expenses)

Elizabeth F's net income is less than the grant for 3 of $318. Previously she would have received a monthly grant of $198. Now, because she works, Elizabeth receives nothing.

ERNESTINE W (two children, works as a clerk in a department store's billing department)

Gross Income	680
Deductions	-149
	531
Child care	-172
	359
Car fare	- 30
NET INCOME	329

Expenses

Mortgage	110	
Gas	80	
Electricity	30	
Telephone	20	
Food	180	
TOTAL	$420	(not including work expenses)

Previously Ernestine would have received $119 + medical card. Now, because she works, she receives nothing. If she did not work, she would receive $318 + medical card.

Mr. MATSUI. Thank you. And I appreciate your remarks. I agree with your comments on workfare wholeheartedly. As you know, California has experimented with this program in the past under President Reagan, when he was Governor of the State of California, and it did not work.

So, I appreciate your comments.

I would like to call at this time Ellen Vollinger, please.

STATEMENT OF ELLEN VOLLINGER, EXECUTIVE DIRECTOR, FULL EMPLOYMENT ACTION COUNCIL

Ms. VOLLINGER. Thank you, Congressman. I appreciate the opportunity to present the views of the Full Employment Action Council on unemployment insurance.

Our coalition includes more than 80 national civil rights, labor, religious, senior citizens, student, and other organizations committed to the right of every American to a decent job opportunity.

We are alarmed by the severity of the current recession. The most recent figures provided reveal that more than 10 million Americans are unemployed. When you add to that the number of citizens who are discouraged or working short workweeks, there are 17 million citizens suffering serious job and income loss.

It is clear to us that the restrictive fiscal and monetary policies of the Reagan administration must be reversed if millions of our workers are to have a chance to provide a decent life for themselves and their families.

Many of the measures which our coalition believes are necessary to combat the recession and to move toward full employment including public job creation, training programs and a lowering of interest rates just to name a few, are outside the jurisdiction of this subcommittee, and I recognize that.

However, your panel can play a pivotal role in cushioning the blow to the unemployed and keeping consumer buying power effective by providing more adequate unemployment compensation benefits.

Specifically, our coalition supports three proposals now before Congress to increase the protection afforded to the jobless.

These are H.R. 6085, H.R. 5284, and H.R. 5452.

First, we urge prompt enactment of Chairman Ford's bill, H.R. 6085, to extend unemployment benefits for another 13 weeks to workers who have exhausted their regular and extended benefits.

I think it is clear from the testimony that we have heard from people from Michigan and Pennsylvania today, among others, that there are many millions of unemployed out there who have exhausted benefits and who need additional assistance.

According to the Department of Labor, half of the 10 million jobless workers are not receiving any unemployment compensation and a good portion of those are people who have exhausted their 39 weeks.

Therefore, we support Chairman Ford's bill to provide up to 52 weeks and we think that would make a critical difference in the lives of many of these workers and their families.

Second, we urge Congress to repeal the changes which it made in the extended benefits program through the 1981 Omnibus Budget

Reconciliation Act. Elimination of the national trigger, raising of the State trigger and removal of extended benefits recipients in the calculation of the insured unemployment rate seriously weaken the protection that was offered to the long-term jobless under the regularly extended benefits program.

For example, last fall and early winter, Michigan, which is a State with an official unemployment rate, at that time, of over 12 percent, if not the highest, one of the highest in the Nation, had an insured unemployment rate below 5 percent, and therefore was not triggered on the extended benefits program for a period of 13 weeks.

We think that was ignoring the reality that unemployed workers in Michigan really needed and deserved benefits and would have been triggered on with a more realistic calculation of the IUR.

Therefore, we support H.R. 5284 and H.R. 5452, proposals recommended to rectify the distortion that is now apparent in the calculation of the IUR. Those bills also restore the national trigger and revise the State trigger as provided for in law prior to the 1981 budget act.

We believe such action is necessary to insure that workers receive the benefits which they desperately need in harsh economic times.

In conclusion, I would like to remind you, Mr. Chairman, that millions of Americans are unemployed through no fault of their own. Their plight, in large measure, is due to the misguided policies being pursued by the administration. In trying to lower the deficit and reduce inflation on the backs of the poor and the unemployed, the Reagan administration not only is failing to attain either goal, but is condemning large number of citizens to longer and longer stretches of forced idleness.

The Government ought to provide meaningful job opportunities for all those who want to work. At least it must provide assistance to those for whom such opportunities are not available.

Our broad coalition is heartened by the interest which this panel has demonstrated in providing more adequate unemployment compensation benefits and we urge your prompt action on H.R. 6085, H.R. 5284, and H.R. 5452.

Thank you.

[The prepared statement follows:]

Statement of Ellen Vollinger, Executive Director, Full Employment Action Council

I appreciate the opportunity to present the views of the Full Employment Action Council on unemployment insurance. Our coalition includes more than 80 national civil rights, labor, religious, senior citizen, student and other organizations committed to the right of every American to a decent job opportunity.

We are alarmed by the severity of the current recession. The most recent figures provided by the Department of Labor reveal that more than 10 million Americans are unemployed. When the numbers of discouraged workers and those who are working short weeks are added on, more than 17 million citizens are suffering serious job and income loss. And the picture does not promise to brighten in the near future. A number of private economists have forecast that the unemployment rate--at 9.0%, already a match for the previous post World War II high--will go higher in the months to come. It is clear that the restrictive fiscal and monetary policies of the Administration must be reversed if millions of workers are to have a chance to provide a decent life for themselves and their families.

Many of the measures which our coalition believes are necessary to combat the recession and move toward full employment -- public job creation, training programs, and a lowering of interest rates, to name a few — are outside the jurisdiction of this subcommittee. However, this panel can play a pivotal role in cushioning the blow to the unemployed and keeping consumer buying power effective by providing more adequate unemployment compensation benefits.

Specifically, our coalition supports three proposals now before Congress to increase the protection afforded to the jobless: H.R. 6085, H.R. 5284, and H.R. 5452.

First, we urge prompt enactment of Chairman Ford's bill H.R. 6085 to extend unemployment payments for another 13 weeks to workers who have exhausted their regular and extended benefits. In previous recessions, Congress has provided supplementary benefits, up to 65 weeks, in recognition of the increased difficulty workers experience in finding jobs during an economic downturn. The additional benefits provide vital income to tide the unemployed and their families over until better times and aid businesses by strengthening spending for goods and services. Fewer than half of the 10 million jobless workers in the United States are receiving unemployment checks. According to the Labor Department, one important segment of the unemployed work force not receiving benefits are those who have exhausted the 39-week maximum period of benefits. Chairman Ford's bill to provide up to 52 weeks would make a critical difference for these workers.

Second, we urge Congress to repeal changes made in the extended benefits program in the 1981 Omnibus Reconciliation Act. Elimination of the national trigger, raising of the state trigger, and removal of extended benefits recipients in the calculation of the insured unemployment rate have seriously weakened the protection offered to the longterm jobless under the regular extended benefits program. For example, the recalculation of the IUR led to the tragically ironic situation this winter that Michigan, a state with an official unemployment rate of 12%, had an IUR below 5% and was not "triggered on" for the extended benefits program for 13 weeks.

Ignoring the pool of longterm unemployed yields a distorted picture of the unemployment situation. Therefore, we support H.R. 5284 and H.R. 5452, proposals offered by Representatives Eckhart and Minish, to rectify the distortion now apparant in the calculation of the IUR. The bills also restore the national trigger and revise the state trigger as provided for prior to the 1981 budget cuts. We believe such action is necessary to ensure that workers receive the benefits which they desperately need in harsh economic times.

Millions of Americans are unemployed through no fault of their own. They owe their plight, in large measure, due to the misguided policies being pursued by this Administration. By trying to lower the deficit and reduce inflation on the backs of the poor and unemployed, the Administration not only is failing to obtain either goal but is condemning large numbers of citizens to longer and longer stretches of forced idleness. The government ought to provide meaningful job opportunities for all those who want to work. At the least it must provide some assistance to those for whom such opportunties are not available. Our broad coalition is heartened by the interest which this panel has demonstrated in providing more adequate unemployment compensation benefits. We urge your prompt action on H.R. 6085, H.R.5284, and H.R. 5452.

Mr. MATSUI. Thank you.

We have down here 12 percent for the unemployment for the State of Michigan.

Ms. VOLLINGER. That was the unemployment rate during the period for which benefits were not being paid under extended benefits. Currently, I believe it is 17 percent.

Mr. MATSUI. Mr. Brodhead mentioned that and I wanted clarification.

I want to thank you both, Mrs. Jones and Mrs. Vollinger, for your testimony. I appreciate your being here all morning and afternoon and coming the distance that you have traveled. Thank you.

Chairman FORD [presiding]. I would like to call at this time Barbara Blum, the chairperson of the National Council of State Public Welfare Administrators, and also R. Michael Baker, the executive director of the Unemployment Insurance Fund, who is testifying on behalf of the Interstate Conference of Employment Security Agencies, Inc.

I understand Mrs. Wolf will be testifying on behalf of Barbara Blum. I welcome you both to this subcommittee and I appreciate your patience in waiting to testify.

STATEMENT OF LINDA WOLF, ASSOCIATE EXECUTIVE DIRECTOR, AMERICAN PUBLIC WELFARE ASSOCIATION ON BEHALF OF BARBARA BLUM, CHAIRPERSON, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS

Ms. WOLF. Thank you, Mr. Chairman. My name is Linda Wolf, the associate executive director of the American Public Welfare Association. I am testifying on behalf of Barbara Blum, who is the commissioner of the New York Department of Social Services, and is also the chair of the National Council of State Public Welfare Administrators.

Commissioner Blum has been called to New York State for budget hearings of her own and apologizes for her absence today.

We very much appreciate this opportunity to convey our views on the fiscal year 1983 spending reductions the Reagan administration has proposed for the human service programs within the Ways Means Committee's jurisdiction.

I would also like to thank Mr. Ford and Mr. Gradison for their willingness to submit alternate proposals.

I will summarize the testimony briefly which has been received for the record.

The National Council of State Public Welfare Administrators opposes further deep cuts in Federal spending for programs serving the poor and vulnerable. The needy have already sacrificed enough in the name of economic recovery and States simply cannot absorb another major cutback in Federal funds.

We also must caution against imposing reductions until more is known about the social and economic consequences of the changes made by the 1981 Reconciliation Act.

While State administrators believe that some of the administration's suggestions warrant further consideration, as a whole they would take benefits away from the poorest people, create disincentives to work for welfare recipients, significantly increases adminis-

trative burdens on States and shift substantial costs from the Federal Government to the States.

It is clear the very poor would be further impoverished if the administration's proposals become law. In this regard, the combined impact of the AFDC and food stamps proposals is especially important to consider.

While the 1982 reductions seem to have been targeted to families with an outside source of income, especially those who are working, the 1983 proposals would reduce the income of all AFDC and food stamp recipients, to learn more about the potenital impact of these proposals we recently surveyed the States.

The preliminary results of this survey show that nationally, the 1983 combined AFDC and food stamp benefit for a typical working family of three would drop at least from $271 to $221 per month.

The same benefit to a nonworking family would slip at least from $446 to $432. The administration proposes to tighten the work disincentives built into AFDC through last year's Reconciliation Act.

Research by the University of Chicago's Center for the study of Welfare Policy indicates that the income of the average AFDC working mother would drop from 78 percent to 72 percent of poverty if the administration's proposals become the law of the land.

Even more startling is its finding that in 24 States this mother would actually end up with less disposable income than the mother who does not work.

Again, our study tends to substantiate what the University of Chicago has already said. With States predicting income losses to the typical AFDC working mother of up to 37 percent, averaging 9.9 percent nationally.

Not surprisingly, out study also reveals that the average earnings of a working recipient have declined significantly since the 1981 Reconciliation Act.

In 1981, average earnings for the States reporting were $382 monthly. By 1982, these earnings dropped to $346 per month, another decrease this time to $325 is expected in 1983, if the administration's proposals go through.

This may mean the typcial AFDC working mother is now either holding down part-time employment or working in a job that pays very poorly—type of welfare recipient one assumes who most needs incentives to remain in the labor market. The administration's proposals also represent costly administrative responsibilities for the States.

We believe new and extensive work requirements, for example, might cost the States and the Federal Government as much as $1 billion to administer. Our preliminary analysis also suggests other programs would add to administrative expenses requiring that the income of unrelated persons in AFDC households be considered available to the family may cost the States between $30 and $40 million to implement; reducing the AFDC family's benefit by the amount of rent the family presumably does not pay when it lives in a larger household may run as high as $20–$30 million in additional administrative costs; and counting energy assistance as income in AFDC and food stamps may add up to $40 million in administrative costs.

These and other complex proposals would increase the harm of the proposal to reduce administrative funds through a block grant. They would also make even more unrealistic the proposed error rate targets and even more inequitable the penalties on the States.

More work requirements with less funds, to administer work programs is but one example of the administration's tendency to transfer fiscal and administrative burdens to the States. Elimination of emergency assistance funds and proposed changes in the financing of child support enforcement programs would also have this result.

Additional reductions would be particularly devastating to the supportive services funded by the social services block grant. States have struggled to protect critical programs such as those designed to prevent child abuse and neglect from this year's budget cuts. The administration's proposals to reduce title XX, foster care and child welfare funding would make this protection impossible to achieve.

Despite these objections, the Council recognizes that Congress is looking for ways to control costs. If reductions cannot be avoided, we offer the following suggestions for your consideration:

To promote equity, a standard household definition should be created that includes the parents, all minor children who are not receiving SSI and parents in the military should be required to contribute financial support to their children on welfare.

Similarly, we endorse child support enforcement proposals that require military parents to make allotments of their salary to their dependents after two delinquencies have occurred. These changes, if simply designed, would adjust programs and benefits to more accurately reflect a family's true financial circumstances.

To encourage work, there would be value in giving States the option to require job search by welfare applicants and to financially sanction expected-to-work AFDC parents when they voluntarily quit their jobs or reduce their earnings, so long as States have some leeway to exempt parents for good cause.

If adequate Federal funds for daycare and the operation of work programs can be made available, State administrators would also like to have the general authority to require ADFC mothers to participate in these programs when their youngest child reaches age 3. We would urge Congress to give highest priority to work programs for welfare recipients for in the long run this may be the most cost-effective investment you can make.

Specifically as an alternative to the existing WIN program, we suggest a national WIN demonstration in which all States would participate using the program authority created last year that some States have this year chosen to use. The national demonstration could be financed with a normal WIN appropriation and could also be a place to reinvest a portion of the savings made in program changes in fiscal year 1983. Under our alternative the WIN funds could be used to help pay the costs of any new or existing AFDC work requirements and test alternatives to the AFDC work incentives.

By requiring an evaluation by each State of the 2-year program as well as an independent national assessment, we would hope to

learn more about successful and inexpensive work promotion techniques as well.

In conclusion, we would like to commend Congressman Ford and Congressman Gradison for proposing legislation that moves toward correcting some of the damage of this year's budget cuts. As these constructive alternatives are considered we suggest that revisions of the AFDC disregards also allow States to test different approaches to work incentives and that increases in energy assistance be viewed as additional needed benefits rather than substitutes for other critical programs.

Thank you. I will be glad to answer any questions you may have.

[The prepared statement follows:]

STATEMENT OF BARBARA B. BLUM, CHAIRPERSON, NATIONAL COUNCIL OF STATE PUBLIC WELFARE ADMINISTRATORS OF THE AMERICAN PUBLIC WELFARE ASSOCIATION, AND COMMISSIONER, NEW YORK STATE DEPARTMENT OF SOCIAL SERVICES

Mr. Chairman and members of the Committee, my name is Barbara B. Blum, and I am commissioner of the New York State Department of Social Services. I also chair the American Public Welfare Association's National Council of State Public Welfare Administrators, on whose behalf I am testifying today. We very much appreciate this opportunity to convey our views on the fiscal 1983 spending reductions the Reagan Administration has proposed for the human service programs within the Ways and Means Committee's jurisdiction.

The Council is composed of the public officials in each state, the District of Columbia, and the U.S. territories charged with the responsibility for administering programs to help the poor meet their basic needs and, when and where possible, overcome or reduce their dependence on government aid. Among the programs we manage are aid to families with dependent children (AFDC), child support enforcement, Medicaid, food stamps, low-income energy assistance, social services, and child welfare. Since its beginning more than 40 years ago, the Council has worked actively with the Congress and the Executive Branch to develop sound and progressive social policies and to assure their responsible and effective administration at all levels of government. The thorny issues President Reagan has laid before you in his FY 83 budget confront those of us working in the human services every day. We hope our experience and expertise will prove useful as you determine how best to control federal spending yet still protect and enhance the lives of less fortunate Americans.

Let me begin by saying that state human service administrators object to further sweeping changes in programs serving needy people. There are three reasons for this.

First, we believe that, with passage of the reconciliation legislation last August, the poor in this country have already sacrificed more than they ought to have in the name of economic recovery. The reconciliation act cuts more than $3.6 billion this year from the core welfare programs--a cut representing almost 11 percent of the act's total $35 billion reduction--and promises to save the federal government considerably more in the years ahead. Yet, these programs--AFDC, child support, Medicaid, food stamps, low-income energy assistance, social services, and child welfare--constitute less than 6 percent of the total federal budget. Is it fair, then, to further reduce the benefits and services on which the poor depend? We think not.

Second, the states simply cannot absorb another large cutback in federal aid without having to substantially reduce the assistance available to persons genuinely in need. By and large, the states do not have the resources to make up for such a loss. Indeed, the economic situation in many states is worse than that of the nation as a whole, and the prospects for rapid improvement appear dim. Additionally, the administration has put forward a "new federalism" initiative designed to sort out federal and state responsibilities. Until the details of this proposal are made clear, states cannot accept the major transfer of financial responsibility further grant-in-aid reductions would entail.

And third, we think it would be premature to cut more from welfare programs now, while the effects of the changes made by last year's reconciliation legislation are just beginning to surface. At best, these massive changes have only been in place six months. Is that enough time for any of us to be confident that another round of wide ranging revisions won't cause more harm than good? If anything, what we do know about the fallout

from the reconciliation act suggests ample room for skepticism about major new changes that are intended to save money. To take just one example from my own state of New York. In Monroe County, where Rochester is located, 130 families lost their day care subsidy last year owing to cutbacks in Title XX funding; within six months of being notified of this change, fully a fourth of these families began receiving AFDC or food stamps. While we cannot be sure at this point, common sense suggests that similar adverse consequences are occurring elsewhere. Until more is known about the actual effects of the spending reductions that have already been made, additional major cuts would, in our judgment, be a step in the wrong direction.

The administration's FY 83 spending plan recommends $6.6 billion worth of reductions--an overall cut of 15 percent--in AFDC, child support, Medicaid, food stamps, low-income energy assistance, social services, and child welfare. This is almost double last year's cut and far outweighs these programs' share of the federal budget, as the chart on the following page indicates. The administration offers most of the same arguments for retrenchment it made a year ago: compel welfare recipients to support themselves; eliminate duplicate benefits; focus assistance on the most needy; promote better management by the states; and reduce federal intrusion in state affairs. Our experience tells us these objectives may not be achieved by the new proposals being made.

While we believe some of the proposed changes merit consideration, most would punch holes in the so-called social "safety net" through which large numbers of truly needy people may fall. More specifically and after careful analysis, the state administrators find that the FY 83 proposals would: further impoverish the poorest people; create disincentives to

CUTS IN CORE WELFARE PROGRAMS FY 82-83

	I FY 82 Estimated Outlays Prior to Reconciliation	II Appropriation or Continuing Resolution for FY 82 (Assumes cuts)	III FY 82 Estimated Federal Savings (Column I Minus Column II)	IV Current Services[1] Estimate for FY 83	V Reagan's Proposed Outlays for FY 83	VI FY 83 Estimated Federal Savings (Column IV Minus Column V)
Aid to Families with Dependent Children	8,215.9	7,291.8	- 923.9 (11.2)*	7,465.0	6,309.9	- 1,155.1 (15.5)*
Food Stamps	12,473.0	11,200.0[2]	- 1,273.0 (10.2)*	12,600.0	10,400.0	- 2,200.0 (17.5)*
Medicaid	18,312.0	17,623.8	- 688.2 (3.8)*	19,859.0	17,845.0	- 2,014.0 (10.1)*
Social Services Block Grant	3,086.0	2,400.0	- 686.0 (22.2)*	2,450.0	1,974.0	- 476.0 (19.4)*
Low Income Energy Block Grant	1,850.0	1,875.0	+25.0	1,936.0	1,300.0	- 636.0 (32.8)*
Child Welfare	568.7	465.6	- 103.1 (18.1)*	494.0	380.0	- 114.0 (23.0)*
Welfare Subtotal	44,505.6	40,856.2	3,649.2 (8.2)*	44,834.0	38,208.9	6,545.1 (14.7)*
Total Federal	739,300.0	725,300.0	35,190.0 (4.8)*	799,000.0	757,600.0	43,000.0 (5.4)*
Welfare Subtotal as % of Federal Total	6.0%	5.6%	10.4%	5.6%	5.0%	15.3%

*Figures in parentheses in Columns III and VI indicate the percentage reduction.

1. Column IV is the Reagan administration's estimates of how much would be spent in FY 83 if current service levels were maintained.

2. Although the current FY 82 Food Stamp appropriation is only $10.3 billion, Congress is expected to approve a $1 billion supplemental appropriation soon.

work for welfare recipients, impose work requirements that cannot be met, and shift significant costs and administrative burdens to the states. Let me address each of these criticisms in turn.

Further Impoverish the Truly Needy

To come up with this year's larger cuts, the administration has had to recommend slashing benefits to people who would be considered truly needy by even the most conservative standards. Two of its proposals would hit especially hard. By reducing AFDC and food stamp benefits according to the amount of energy assistance received and increasing the food stamp benefit reduction rate, nearly all welfare families would be made poorer. I mention food stamps here, even though the program is not within this Committee's jurisdiction, because most AFDC families receive them and, thus, would be affected by the proposed food stamp changes.

Although the 1982 reductions seem to have been targeted to families with an outside source of income, especially those who are working, the 1983 proposals are likely to reduce the income of all AFDC and food stamp recipients. To learn more about the potential impact of the FY 83 proposals, we recently surveyed the states; 37 have been able to respond so far. The preliminary results show that, nationally, the 1983 combined AFDC and food stamp benefit to a typical working family of three would drop at least from $271 to $221 per month due to the administration's proposed changes. The same benefit to a non-working family would slip at least from $464 to $432. We believe these benefit losses would be greater if the states reporting were able to figure in other proposals such as shelter proration and counting the income of unrelated persons; unfortunately, due to data limitations, most could not perform this calculation.

At the state level, the actual impact may be even more severe. For example, the state of Kansas has predicted that the disposable income for the typical AFDC family of three, where the mother does not work, would decline from 78 percent to 72 percent of poverty. In Oregon, this same typical family would see its income fall by more than 9 percent. In Illinois, the non-working family would lose $38 per month in AFDC-food stamp benefits. The same Illinois welfare family, this time with average earnings and child care costs, who saw their monthly benefits reduced by $62 by the reconciliation act, would lose another $50 a month from the FY 83 proposals. It is important to keep in mind here that we are talking about families with incomes that fall considerably short of the amount the federal government itself has defined as necessary for subsistence. Thus, further cuts in benefits to these families would only diminish their already inadequate incomes.

Two of the administration's proposals for FY 83 are especially alarming, because they would substantially reduce the disposable income of large numbers of poor families. Assuming a contribution from other unrelated persons, with the principal target the man in the home of the female-headed household, would reduce or terminate aid to 180,000 families and save $26 million, according to the 20 states that have reported to us. Although the savings projected are well below the administration's $69 million, the states believe that far more than the 43,000 families the Department of Health and Human Services predicts would actually be affected. The proposal also raises troublesome legal questions. An "unrelated adult" is difficult to define, and that person's obligation to support children for whom he or she has no legal responsibility otherwise will certainly be challenged if this proposal is adopted.

Second, we fail to see the logic in the proposal to count energy assistance as income. We do not believe energy payments duplicate AFDC and food stamps, as the administration contends. The energy program was explicitly created by Congress in recognition of the fact that the poor do not have sufficient incomes to meet the rising cost of heating and cooling their homes. According to estimates made by 28 states, more than 2 million families could be affected by counting energy assistance as income for AFDC and food stamps. Most of these families would have their assistance reduced.

Create Disincentives to Work

Spurring welfare recipients to work is a theme often sounded by the administration, but its FY 83 proposals would, in our opinion, do relatively little to advance this theme. Indeed, we believe that these proposals, when combined with the changes made by last year's reconciliation act, may make the financial reward of working so small for many AFDC recipients, they may have no choice but to rely totally on public assistance and at least protect their eligibility for Medicaid and social services.

The major work disincentive contained in the administration's FY 83 budget is the proposal to completely eliminate the earned income disregard food stamp recipients get when they work. Adding its elimination to the apparent disincentives built into AFDC by the reconciliation act--elimination of the work incentive disregard (i.e., $30 plus one-third of remaining income) after four months, taking the work incentive disregard off of net rather than gross income, standardizing work expense and child care deductions often below actual costs for these items, and limiting eligibility to a family with gross income at or below 150 percent of a state's need standard--

and to the new proposals for counting energy assistance and upping the food stamp benefit reduction rate, would be tantamount to imposing marginal tax rates above 100 percent on many working welfare recipients. We cannot understand why the same president who has so vigorously advocated reduced taxes for the rest of the nation--as a way to encourage savings and hard work--would suggest raising taxes to confiscatory levels for the poor, by reducing their income if they work.

Research by the University of Chicago's Center for the Study of Welfare Policy indicates that the income of the average AFDC working mother would drop from 81 percent to 73 percent of poverty, if the administration's proposals become the law of the land. Even more startling is its finding that in 24 states this mother would actually end up with less disposable income than the mother who does not work. Again, our own study tends to substantiate this, with states predicting income losses to the typical AFDC working mother of up to 37 percent, averaging 9.9 percent nationally. Not surprisingly, our study also reveals that the average earnings of a working recipient have declined significantly since the 1981 reconciliation act changes went into effect. In 1981, average earnings for the states reporting were $382 monthly. By 1982, these earnings dropped to $346 per month. Another decrease, this time to $325 is expected in 1983 if the administration's proposals go through. This may mean the typical AFDC working mother is now either holding down part-time employment or working in a job that pays very poorly--the type of welfare recipient, one assumes, who most needs incentives to remain in the labor market.

Establish Unrealistic Work Requirements

The National Council of State Public Welfare Administrators has always favored strong work requirements for employable welfare recipients.

However, the new work requirements the administration proposes will raise expectations that simply cannot be met, especially so long as federal resources for helping AFDC mothers secure jobs that pay a living wage continue to shrink.

For many recipients who are not now working (or not working enough), the states would be mandated to impose strict new work requirements, while sustaining a substantial loss in federal funds for carrying out the current work requirements. Money for the Work Incentive (WIN) program--the only source of funds used exclusively for helping AFDC recipients obtain employment--would be totally wiped out, despite the fact that only last year the administration agreed, at the urging of Congress, to let states demonstrate more effective ways to operate WIN. Sixteen states have told us that the loss of federal WIN funds would mean the elimination of their work program for AFDC recipients; another three would sharply curtail WIN activities. A different three states have mentioned that they would replace WIN with a community work experience (workfare) program, and two states say that they would use state funds to at least partially make up for the elimination of federal funds.

Stopping federal support of the WIN program also conflicts with the numerous additional work requirements contained in the administration's budget for AFDC. If this plan becomes law, all states would have to: operate what are often costly workfare programs; require AFDC and food stamp applicants to search for jobs while their applications are being processed; remove parents from AFDC when the youngest child reaches age 16 without providing any training or job search assistance to them; require parents who receive AFDC because they are unemployed to participate in workfare; remove from AFDC parents who voluntarily quit their jobs or reduce their earnings,

even those who are not by law required to work; and penalize those who refuse to participate in the state's work programs.

Although states might like to test some of these requirements, such as job search for applicants and sanctions for parents who refuse work, the administration's recommendations would not be universally successful in all states or with all groups of affected recipients, and could not, in any event, be effectively carried out without federal resources. With the nation's unemployment rate hovering near 9 percent, there are in many states few, if any, jobs that welfare recipients can be compelled to take. And, the administration's alternative to private sector employment--workfare--costs money to set up and operate. According to very rough estimates we have made based on our survey, it might cost the states and the federal government as much as a billion dollars in FY 83 to operate workfare programs and administer the other proposed work requirements. Where will this money come from, if funding for WIN is eliminated and administrative dollars are federally capped? The states cannot do the job without an adequate federal financial commitment.

Shift Costs and Administrative Burdens to States

The work requirements are but one example of the tendency in the administration's FY 83 budget to shift more financial and administrative responsibility for welfare programs to the states. Let me address the problem of cost shifting first.

Almost half of the $6.6 billion in recommended welfare savings would be achieved by merely transferring costs to the states; a questionable strategy made all the more troublesome by the fact that most states cannot

absorb these costs. Examples within the Public Assistance Subcommittee's jurisdiction include the following:

- As already noted, funds for the WIN program are to be eliminated, saving the federal government $245 million--yet more people would be subject to work requirements.
- The energy assistance and AFDC emergency assistance programs are to be combined, with funding cut by 33 percent, for a federal saving of $636 million--yet there is no evidence that the poor will have any less need for this assistance come next winter.
- To save $100 million, the federal formula for financing the child support enforcement program is to be revamped, with funds based on the ratio of costs to collections--yet to achieve so large a reduction, all states would absorb a significant dollar loss, regardless of the state's past child support performance.

There are also major shifts planned for social service and child welfare programs, about these, I will say more in a moment.

If states cannot make up for such losses, who will? Most localities are no better off financially, and the leaders in the private sector have made it clear that their organizations are in no position to fill the gap.

The FY 83 budget would also transfer costs by imposing additional administrative burdens on states, while actually decreasing the federal share of state and local administrative costs. Put simple, states would have more to do but less money with which to do it. The administrative burdens come in two forms:

First, in AFDC especially, states would be required to administer a number of new, program-complicating rules designed to reduce eligibility and benefits, in addition to the work requirements I have already mentioned. For example, states would have to reduce the AFDC family's benefit by the amount of rent the family presumably does not pay when it lives in a larger household with others. However, fourteen states (representing approximately 10 percent of the AFDC caseload) estimate that it would cost them an additional $2.7 million to implement this proposal, suggesting that the extra cost of carrying out the provision for the nation as a whole might run as high as $20-30 million next year. Most of the added expense would be for staff. Minnesota says the change would necessitate the equivalent of 15.5 full-time employees; North Carolina estimates that an additional 34,000 persons hours would be needed. Currently, as a means to simplify benefit calculations, a majority of states use a consolidated or flat AFDC grant, in which the amount to cover shelter and utility costs has been standardized according to family size and income. A proration requirement would force them to abandon this simplified practice, thereby adding to the time and complexity of benefit determination.

States would also be required to assume that the income of other unrelated persons living in the same house is available to the AFDC family (a proposal rejected by this subcommittee last year). Twelve states, accounting for roughly 8-9 percent of the AFDC caseload, report that it would cost them an estimated $2.8 million to administer this proposal. Thus, for all the states combined, the cost of implementation could equal $30-40 million. Similarly, the FY 83 budget proposes that states count toward the needs of the AFDC family the income of related minor children who are not AFDC recipients (e.g. those receiving social security or child support).

Although states are generally supportive of this proposal, eight states point out that it would add an estimated $1.3 million to their FY 83 administrative costs. These states represent about 7 percent of the caseload, and thus, the nationwide cost of putting this change in place could exceed $15 million. Finally, and as previously noted, states would have to offset AFDC and food stamp benefits according to the amount of energy assistance a household gets. This would cost 11 states an estimated $3.6 million to administer. Given that these states account for roughly 9-10 percent of the AFDC and food stamp caseloads, it is possible the cost to implement this proposal could reach $40 million in FY 83. Again, the main expenditure would be for increased staff to track down the recipient of energy assistance payments, which tend to be irregular and are often administered by a different agency than that running AFDC and food stamps.

All of these proposed revisions would likely further complicate administration, and would come on the heels of the numerous 1981 reconciliation act changes, which states are still implementing.

The second and most important administrative burden proposed by President Reagan would require states to meet a 3 percent tolerance for AFDC, food stamp, and Medicaid errors in FY 83. States would lose federal funding for any errors above this level, and by FY 1986 would be expected to have reduced our errors to zero in all three programs. How does one argue against such an ingenious proposal? Who favors increased errors? Yet, it is impossible to eliminate all errors. Only under ideal circumstances with ideal programs could a zero error rate be achieved--a situation which will never be realized. The incidence of client-caused errors, the existence of error prone policies such as those I have just noted for counting

other presumed sources of income, a federal definition of error in AFDC that is so broad that the majority of countable errors do not involve the mispayment of funds, and the constant introduction of staff to new policies and procedures stemming from the frequency with which the federal government changes these programs--all assure that errors will occur, even in the best run programs. States have made significant progress in reducing errors: the AFDC error rate has been cut in half since 1973 and now stands at approximately 8 percent; the Medicaid error rate is a low 5 percent, down from a little more than 6 percent in 1978 when Medicaid quality control began; and the current food stamp error rate, 13.3 percent, is more than ten percentage points lower than it was in 1974. Yet, despite this progress, the administration's proposed error rate policy would end up penalizing all 50 states, further reducing the already limited funds needed to provide benefits to the poor.

The administration's proposal to combine and cut funding for the expenses of administering AFDC, Medicaid, and food stamps would only compound the difficulties states face in operating economical and effective welfare programs.

Thirty states reported to APWA that they would lose close to $200 million next fiscal year as a result of this block grant. Nearly all of these states specifically state that the funding cutback would impair their ability to manage welfare programs effectively and economically and to make improvements in welfare administration. This problem will be compounded, they suggest, by the other changes the administration is trying to make in AFDC, Medicaid, and food stamps. States point out that error rates would increase, development of cost-saving information systems would be slowed or stopped, and service quality would decline due to the block grant.

Now let me turn to the proposed cuts in social services and child welfare.

Social Services

Publicly funded social services are among perhaps the most difficult and challenging of the human services, because they deal with the most complex human problems and often require intervention at points of crisis in the life of an individual or family. The provision of social services entails protecting and caring for those who are helpless, or vulnerable and, if provided at times of crisis, can prevent the need for expensive intervention in the future. Social services programs, in fact, provide much of the kind of help the Reagan Administration favors: support to the truly needy and assistance to become self-supporting and independent. Yet, at a time when many families and individuals are experiencing greater economic pressures and personal problems, and hence require more services such as day care, counseling, homemaker chore services, and preventive and protective services of all types, social services budgets are being cut. While the effects of these reductions might not be fully felt today, they cannot but hinder our ability to meet the pressing needs of our citizens.

The reconciliation law consolidates the Title XX programs (day care, social services, and training) and reduces funding for them to $2.4 billion this year, a 20 percent cut. The President's budget for Fiscal Year 1983 proposes to reduce the Title XX block grant by an additional 18 percent, to $1.974 billion. The budget also proposes, as I have already noted, to provide no funds for the Work Incentive (WIN) program (through which day care and other services are provided to AFDC recipients while they are in training or seeking employment) and to reduce by 71% percent funds for the community services block grant (through which community based anti-poverty programs provide a variety of services). For both of these programs, the administration assumes the funding losses can be offset by using

diminishing Title XX funds.

Secretary Schweiker testified before this committee in February that "it is imperative we utilize discipline in federal spending, stemming the rate of growth in HHS programs, thus helping reduce inflation." He also said in defense of the additional social services budget reductions that, "In Fiscal Year 1983, as in Fiscal Year 1982, the states will be in a position to use the greater latitude in use of these funds to develop more cost efficient and effective social services delivery systems.

I would like to state emphatically that these statements ignore two fundamental realities:

- First, while other important federal assistance programs have experienced substantial funding increases in recent years, Title XX has not experienced any real growth since its inception. In fact, it has declined in constant dollars.
- Second, states have maintained their commitment to critical services programs, despite federal budget cuts, and have taken advantage of the flexibility provided in the social services block grant to improve the efficiency and effectiveness of their programs. However, there are few, if any, additional savings to be had through use of greater administrative latitude.

It is in large part because the program has not kept pace with inflation that it is so difficult to continue to absorb funding reductions and still retain essential services. The actual dollar loss to states in federal social services funds would be over $1 billion in a two year period, if the President's FY 83 proposal were approved by Congress.

The American Public Welfare Association has monitored the impact of the

Title XX block grant and its attendant funding reductions on state administration of social service programs over the course of the last year. Because the block grant allows states significant flexibility, they are responding according to state specific needs and circumstances, thus making it difficult to generalize about the impact of the FY 1982 changes on social service programs. Nonetheless, several trends are apparent:

- Administrative changes--States are attempting to absorb as much as possible of the budget reductions in administrative functions, so as to protect services programs. For the most part, states have moved immediately to implement those changes that would appear to save money in the short run (for example, switching from display advertisement to legal notices as a means of informing the general public of social services plans), or save time (for example, reducing the number or content of forms which need to be completed by field staff). States have been forced to prioritize services needs to continue to fund protective services, and other state or locally mandated services, and as a result day care for children and adults, preventive services, and purchased or contracted services often appear to have taken the largest cuts.

  States have tried to improve the efficiency and effectiveness of limited services dollars through such steps as: changing eligibility requirements to target services to the most needy; expanding the use of fees for services; increasing the use of volunteers where possible in services programs; and using integrated rather than generic case workers. Most states have drastically reduced their training programs so as to preserve direct service.

- Funding changes--States have tried to protect needed services

through use of alternative funding mechanisms, as well as alternative sources of funding. Although there is no longer a state match requirement, most states have, at least in FY 82, not drastically reduced state social services dollars. In fact, there are several states that have made up for the federal reduction of funds with state dollars. Some states have attempted to buffer the impact of federal budget cuts by retaining local match requirements. Some states have renegotiated or intend to renegotiate service contracts requiring either a higher match or retention of the same level of service for a reduced dollar amount.

Some 20 states were able to cushion the effect of the Title XX budget cuts by exercising their option to transfer money from another block grant into the social services block grant.

It is important to state that, the impact of the federal budget reductions enacted in FY 82 has not yet been fully felt in many states. There are a variety of reasons why this is so. In part, because of the uncertainty, until well into the fiscal year, of the final federal funding level; in part because many states are on a fiscal year cycle that differs from the federal government's; in part because of one time only funding shifts, several states have been able to delay actual service reductions. Other states have avoided making cuts by passing on or sharing the federal reductions with other levels of government, service providers, and service recipients. Some states have been better able than others to absorb or otherwise respond to the FY 82 budget cuts in services programs. All states, however, have indicated that serious service disruptions would be the result of further budget reductions, especially of the magnitude proposed by the President in his FY 83 budget package.

Consequently, we urge Congress to reject the President's proposal to reduce the Title XX social services block grant and instead retain a stable level of federal funding for Title XX. This stable funding level must be one on which states can rely and on which other efforts can be built to protect the frail and to, where possible, reduce dependency. One method of providing a stable base would be to retain funding at the levels provided in the Omnibus Budget Reconciliation Act of 1981 ($2.45 billion in FY 83).

President Reagan's Fiscal Year 1983 budget also recommends a child welfare block grant, which would consolidate Title IV-B child welfare services and training with Title IV-E foster care and adoption assistance, and would reduce funding by approximately 23% below what is estimated states will require in FY 1982 for these four programs. According to Secretary Schweiker, the proposal, when it is finally drafted, will reduce the federal burden on states while retai ing protections for children in foster care and those receiving child welfare services. The protections referred to are those included in P.L. 96-272, the Adoption Assistance and Child Welfare Act of 1980.

The enactment of P.L. 96-272 represented the culmination of years of effort by a broad coalition of individuals and organizations concerned about children, and could not have happened without the strong leadership from members of this committee. The National Council of State Public Welfare Administrators was actively involved throughout the five-year development of the legislation, testifying before this committee and others in support of the child welfare, foster care, and adoption assistance initiatives that are now embodied in P.L. 96-272.

We believe that P.L. 96-272 has been a very positive force in both providing the direction and the incentive for states to move toward instituting much

needed but expensive reforms of their child welfare systems. Without the availability of the additional funds, undoubtedly, many states would not have been able to afford such reforms.

Since there has been, to date, no official child welfare block grant proposal introduced by the administration, we have taken no formal position on it. As the administrators of the state child welfare, foster care, and adoption assistance programs, we would certainly welcome the administrative flexibility that the block grant mechanism would apparently entail. However, the proposed block grant presents us with the same problems as does the social services block grant: a funding level too low to be able to adequately meet the needs of children in care and a funding reduction too large to be justified on the grounds of administrative savings. The proposed 23 percent reduction, coupled with the retention of the P.L. 96-272 requirements, would place states in the untenable position of having to choose between meeting critical systems needs and meeting critical service needs.

We are also alarmed by the prospect of the loss of foster care as an entitlement. The foster care program has since its inception been considered an entitlement program, with federal funds available to reimburse states for their expenditures in support of children within the state who meet the requirements of the federal foster care program. With passage of P.L. 96-272, there was for the first time a provision for a ceiling on the amount of funds that would be available from the federal government for reimbursement of foster care maintenance costs. However, the foster care ceiling was not put in place as a budget tightening device, but rather as a budget mechanism to achieve policy change, that is, permanency for children. Even with the possibility of a ceiling, the Title IV-E foster care program

remains an entitlement program; the integrity of the foster care system and the success of the adoption assistance program for special needs children depend on a reliable source of funding.

Finally, it appears from both this proposal and the proposed FY 84 turnover to states of all of the existing children's services programs, that the administration does not believe there is any role for the federal government in children's services programs. The Council maintains that there is a valid role for the federal government in providing leadership, technical assistance, and guidance to states. The federal government should not be involved in the details of administering programs but rather in setting broad directions and goals for programs to pursue.

Thus, as should be clear, we strongly oppose additional cuts in Title IV-B or Title IV-E. These programs have already been significantly affected by the funding reductions in the Title XX social services block grant. Additional cuts cannot be absorbed through non-existent administrative savings. Cuts in Title IV-E would seriously affect the quantity and quality of services to children and would severely undermine the implementation of P.L. 96-272. The Council recommends that these programs be funded in Fiscal Year 1983 at a level equal to or greater than the current Year 1982 level.

ALTERNATIVES

While it is clear by now that we oppose most of the Reagan Administration's FY 83 recommendations for changing welfare programs, I want to identify for the Committee those proposals we think warrant further discussion as well as some of our own ideas about how to control federal spending. I want it to be understood, however, that states would be content with no

further changes in the coming year. Basic welfare programs and the people they serve have already endured more than their fair share of budget cuts. Nevertheless, we know you are seeking alternatives and, thus, hope that our suggestions will be persuasive, should you determine that additional cost-saving actions are necessary.

I would like to organize our suggestions into three categories: promoting equity, encouraging work, and strengthening administration.

Promoting Equity

Inequities in the way people are treated by welfare programs have long frustrated policymakers and program administrators and will probably continue to in the foreseeable future. Certain of the administration's proposals, if designed to minimize their administrative burden, may help to reduce these inequities some. In AFDC, we think it makes sense to establish a standard household definition that includes the parent(s) and all minor children who are not receiving SSI and to require parents in the military to contribute financial support to their children on welfare. Similarly, we endorse the child support enforcement proposals that require military parents to make allotments of their salary to their dependents after two delinquencies have occurred and limit the immunity from civil process now allowed military personnel. These changes would adjust programs and benefits to more accurately reflect a family's true financial circumstances, although, as I have mentioned, initial implementation may be costly.

We also agree with eliminating the double payment--AFDC and child support--made to families when child support payments make them ineligible for AFDC. We support requiring states to collect and distribute child support in IV-E

foster care cases, so long as states are allowed some discretion to decide when pursuit of child support would not be in the best interests of the child. Finally, the administration's proposals to make optional the unemployment compensation intercept and allow section 1115 waivers for states to test innovative child support enforcement practices would increase state flexibility and should be adopted.

Encouraging Work

As I alluded earlier, we think there would be value in giving states the option to require job search by welfare applicants and to financially sanction expected-to-work AFDC parents when they voluntarily quit their jobs or reduce their earnings, so long as states have some leeway to exempt parents for good cause. If adequate federal funds for day care and the operation of work programs can be made available, the state administrators would also like to have the general authority to require AFDC mothers to participate in these programs when their youngest child reaches age three. Mothers with young children on AFDC are often young themselves and should be helped to acquire the skills and training needed to compete in the labor market, before they become too dependent on welfare. In addition, while we oppose the administration's recommendation to shorten from four months to 30 days the automatic extension of Medicaid eligibility for persons who have worked their way off AFDC, we believe the concept has merit. As an alternative, we would suggest letting the states determine the length of the extension, up to four months, since it may often take longer than 30 days to secure private health insurance.

Finally, we would urge Congress to give a high priority to work programs for welfare recipients, for in the long-run this may be the most cost-effective investment you make. Without this investment, we believe many welfare

recipients may be relegated to permanent dependence unnecessarily.

Specifically, as an alternative to the existing WIN program we suggest a national WIN demonstration, in which all states would participate, using the program authority created last year that some states have this year chosen to use. The national demonstration could be financed with the normal WIN appropriation and could also be a place to reinvest a portion of any savings made from program changes for FY 83. Under our alternative, the WIN funds could also be used to help pay the cost of any new or existing AFDC work requirements and to test alternatives to the current AFDC work incentives (i.e. $30 and 1/3, child care and work expenses, and the 4-month limit). By requiring an evaluation by each state of the two year program, as well as an independent national assessment, we hope to learn more about successful and inexpensive work promotion techniques as well. A copy of our proposal is attached.

Strengthening Administration

We offer several suggestions in the interest of simplifying welfare program administration. First, we would urge Congress to make the AFDC and food stamp programs more compatible administratively, given that these programs serve many of the same people. Discrepancies between AFDC and food stamp requirements are a major source of error that could be at least partially removed by defining terms in the same way for both programs.

Second, we believe the federal practice of threatening states with penalties for supposedly poor performance is ineffective, arbitrary, and breeds ill will between the different levels of government. Perhaps a better way to improve administration would be to give states rewards for good performance, as is currently being tried in the food stamp program. It

would be possible, we think, to design such a policy so that it would not cost the federal government any additional money and in the long-run would probably yield significant savings.

Third, in child support, we think the administration's proposal for triennial program reviews and graduated penalties for poor performance in lieu of an annual audit, has merit and should be adopted. The existing period for resolving state-federal audit differences must be retained, however, and the assessment should be based on both statutory compliance and measures of program effectiveness that are supported by both the federal and state agencies. We also endorse the proposal to require that the U.S. Postal Service verify addresses for the purpose of locating absent parents and that food stamp agencies disclose information from their records for child support enforcement purposes. Similarly, we support state access to the Federal Parent Locator Service in non-AFDC cases before state and local sources have been fully exhausted. This is currently allowed in AFDC cases and could hasten the receipt of child support payments generally.

One final comment in the child support area. The administration has proposed a mandatory 6 percent collection fee for non-AFDC cases to replace the 10 percent surcharge created last year. We believe that the fee should be no more than 6 percent and based on the state's actual collection costs. We understand, however, that the conference committee on H.R. 4717 will be meeting to consider a compromise that sets the fee at no more than 10 percent, with state flexibility to determine actual costs and to decide whether the absent or caretaker parent should pay it. We support this compromise.

I realize many of these ideas are stated in general terms but I hope I have been able to give you a sense of our alternatives. As always, the council of state administrators would be more than happy to help further develop those proposals in which the committee is interested.

PENDING LEGISLATION

Finally, Mr. Chairman, I would like to give you our comments on some of the bills pending before your committee.

Two of these bills are of special interest to us. We support H.R. 5226, offered by Rep. Gradison (R-OH) but would suggest that it be amended to also permit state subsidy of the cost of Medicaid for persons who lose AFDC eligibility because of earnings. This may be more cost effective than private health insurance in some parts of the country. Your own bill, H.R. 5791, proposes changes in AFDC, low-income energy assistance and social services. I will address each of these programs in turn.

State administrators have long endorsed standardized work expense and child care deductions that are reasonable. Last year, we vehemently opposed the administration's proposals to limit $30 and 1/3 to four months, assume advance receipt of the earned income tax credit (EITC) through the welfare system, and create a gross income limitation, all of which are now law. We support, therefore, the approach of H.R. 5791 which establishes more reasonable earned income disregards, eliminates the 150 percent cap on gross income and counts only the amount of the EITC actually received, but would urge you to also permit states to test a variety of work incentives (i.e. replace $30 and 1/3, etc.) as part of an overall employment strategy for welfare recipients.

We endorse the provisions in H.R. 5791 that would extend the authorization for the low-income energy assistance program through FY 85 and increase the authorization by $100 million each year. This year, because of sweeping human service program cuts, especially those in Title XX social services, many states were forced to transfer funds out of the energy program to other block grants. Consequently, we believe that any increases in energy assistance should not be granted this year at the expense of these other human service programs. We would also urge you to authorize the federal government to collect the basic program data you will need to make informed decisions about the energy program in the future.

Finally, your bill would provide a stable level of funding for Title XX and would, in addition, increase this amount by $200 million per year in FY 83, 84 and 85. This increased funding level would greatly assist states in meeting the needs of children, families and the elderly, and we strongly commend putting such a provision forward.

Thank you for this opportunity to testify, Mr. Chairman. That concludes my statement.

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Attachment: A Proposal for a New AFDC Work Program

NATIONAL COUNCIL OF STATE
PUBLIC WELFARE ADMINISTRATORS
OF THE AMERICAN PUBLIC WELFARE ASSOCIATION
1125 FIFTEENTH STREET, N.W. WASHINGTON, D.C. 20005

Suite 300
Telephone: (202) 293-7550

A PROPOSAL FOR A NEW AFDC WORK PROGRAM

The National Council of State Public Welfare Administrators proposes that a national Work Incentive (WIN) Demonstration program be created to replace the existing WIN program. The demonstration would be targeted solely to AFDC applicants and recipients and include all of the state flexibility allowed under the WIN Demonstrations authorized this year by the Omnibus Budget Reconciliation Act of 1981. Each state would participate in the demonstration with the IV-A agency responsible for designing and administering the program.

The program would be financed with 90 percent federal funds and a 10 percent contribution from each state as is currently the case with the WIN program. The money would be allocated according to the formula originally established for the WIN Demonstration (that is, as if all states had chosen to participate in the demonstration this year) and frozen for FY 83 and FY 84. This will honor the commitments made to the current WIN Demonstration states and extend the program to other states on an equal basis. (For future years, funding might be based on the amount of money spent on AFDC in the state with extra incentives for performance.)

The existing WIN Demonstration authority would be modified in three other ways:

- States would be expressly permitted to use the funds to test alternatives to the existing AFDC work incentives (that is, $30 and 1/3 and the 4 month limit, for example). These alternative incentives could not be considered income for AFDC purposes.

- States could use the WIN Demonstration funds to carry out any current or future AFDC work requirements.

- An evaluation would be conducted by each state and a national independent assessment would be made. State evaluation criteria would include: (1) the cost of placement for persons who find subsidized and unsubsidized employment; (2) a measure of long term employability, such as whether the person is not dependent on AFDC after 3 or 6 months; (3) the quality of training and the kinds of placements made; and (4) the amount of the welfare grant reduction that results.

STATEMENT OF R. MICHAEL BAKER, DEPUTY EXECUTIVE DIRECTOR, UNEMPLOYMENT INSURANCE, SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION, REPRESENTING THE INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC.

Mr. BAKER. I am Michael Baker, and I am deputy executive director of the South Carolina Employment Security Commission. I am also vice chairman of the Interstate Conference's U.I. Committee. I am here today to present the Interstate Conference's position on some proposed legislation.

As you probably know, the Interstate Conference represents the administrators of all 50 States, Puerto Rico, the District of Columbia, and the Virgin Islands who administer the State unemployment insurance program and job service program.

I would first like to address several of the Administration's fiscal year 1983 proposals that concern unemployment insurance. The first proposal is the one that would round down weekly benefit amounts for unemployment insurance. This is simply a proposal that says any time you compute an individual's entitlement to unemployment insurance, and it does not come out to a whole dollar amount, you would round it down to the next lower dollar.

We take a position, as a conference, against this recommendation. We do this because we feel that the decision as to the amount of benefit payments is best left to the States to determine. As you know, the unemployment insurance program is a State-Federal partnership in which the determination of weekly benefit amounts has historically been left to the States.

The administration, as you also know, has proposed a change in the payment of unemployment insurance benefits based upon military service. The change they suggest would pay benefits only to those people discharged from military service due to demobilization, reduction-in-force or disability incurred while they were in military service. This is a small change in the current program which reflects restrictions imposed by the omnibus reconciliation bill of 1981.

The conference has long taken a position that we are not in favor of treating military service and wages any differently than wages earned in any other activity. The conference's position is that we feel that these proposals should be looked at very carefully and probably turned down because military wages should be viewed just as any other wages earned in any other employment.

I would also like to address the proposal in H.R. 5284, and H.R. 5452, which would repeal changes made in the extended benefit trigger mechanism that was enacted in the Omnibus Reconciliation Act of 1981. You have heard already considerable testimony regarding these changes earlier today. I will try to make my comments brief.

The first proposal, as you know, is to reinstitute the national trigger requirement for unemployment insurance benefits. Our conference's position on this is that the national trigger should not be reinstated. The reasons are simply that the national trigger oftentimes requires benefits to be paid in those States where employ-

ment and the unemployment rate is good. It pays out benefits needlessly to those States.

We feel that State triggers are very appropriate since they pay benefits into those States where there is a high rate of unemployment. These bills would repeal the higher State trigger rates scheduled to go into effect in October 1982. As you know, the present procedure is for the State to trigger "on" at 4 percent insured unemployment when the State unemployment rate is also 20 percent above what it was for the same calendar period in the prior 2 years. The current law also provides for a waiver of this provision when the State unemployment rate reaches at least 5 percent. The Omnibus Reconciliation Act increased the required State trigger rate to 5 percent—plus a 20 percent increase—and the optional trigger rate to 6 percent effective for weeks of unemployment after September 25, 1982. We feel these provisions should be retained and these provisions of the Omnibus Reconciliation Act should not be repealed.

These bills also provide for repeal of the exclusion from the trigger calculation of those people filing for extended benefits. We feel that this exclusion should remain in effect. Including extended benefit claims would create the possibility of two States having the same insured unemployment rate based on regular claims, yet one would be paying extended benefits and the other would not.

I would like to comment and read a statement regarding House bill 6085. As you know, H.R. 6085 would provide in States that "choose to participate in the program up to 13 additional weeks of benefits for those who have exhausted all regular and extended benefits." Benefits would be financed from Federal general revenues and paid during periods when extended benefits are payable.

In general, the Interstate Conference believes that the duration of unemployment insurance benefits should not exceed 39 weeks. We see the function of unemployment insurance as providing for relatively short-term partial wage replacement in order to aid individuals to bridge the gap between jobs.

We take the position that spells of unemployment longer than 39 weeks are an economic and social problem which are not properly addressed by a true unemployment insurance program. Of course, we do support any action to aid those long-term unemployed workers and help them adjust to new economic environments. However, we do not believe that simply lengthening the duration of unemployment benefits is the answer.

Should the Congress decide an extension of unemployment insurance benefits is necessary as a part of the Federal effort to stabilize the economy, and to minimize individual hardships, we recommend that the extension be a temporary one and both the benefits and administrative costs be financed from general revenue funds.

I would like to make a brief statement on House bill 5904 which is a proposal that would encourage States to develop short-time compensation plans. We feel that Federal legislation in this area is not required because States have the option within their own State legislatures to develop this type of plan as it currently stands.

In summary, we would like to urge that the subcommittee reject the administration's proposal to round unemployment benefits to the next lower dollar. We do not support the administration's pro-

posal to further restrict the payment of unemployment insurance benefits to former military personnel, and we do not support repeal of changes in the extended benefit trigger provisions that were set forth in the Omnibus Reconciliation Act of 1981, nor do we support the extension of unemployment insurance benefits past 39 weeks.

I appreciate the opportunity of presenting our views to you today, and I would be glad to answer any questions.

[The prepared statement follows:]

STATEMENT OF R. MICHAEL BAKER, DEPUTY EXECUTIVE DIRECTOR, SOUTH CAROLINA EMPLOYMENT SECURITY COMMISSION, AND VICE CHAIRMAN, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, UNEMPLOYMENT INSURANCE COMMITTEE

The Interstate Conference of Employment Security Agencies (ICESA) is an organization of all 53 state administrators responsible for unemployment insurance and employment service operations. We strongly support the federal-state partnership in the employment security system and accordingly oppose federal standards which limit the states' ability to tailor programs to local needs. Outlined below are our positions concerning the unemployment insurance proposals currently under consideration by the Subcommittee.

1. Administration's Proposals for Fiscal Year 1983

   a. We oppose the requirement for rounding of unemployment benefit checks to the next lower whole dollar, as it is a federal benefit standard, and in our opinion an undesirable step into areas which have traditionally been left to the states.

   b. We do not support further restriction of unemployment benefits to former service personnel and instead urge modifications which would treat wages earned in the military in the same manner as those earned in the private sector.

2. Extended Benefit Trigger Mechanisms--Repeal of Reconiciliation Changes

   a. We do not support repeal of legislation which eliminated the national EB trigger. A national trigger would require the payment of additional weeks of benefits in states where economic conditions are good.

   b. Higher state trigger levels for weeks after September 25, 1982, should be allowed to go into effect. Although it is difficult to set thresholds for all states, on the whole, the higher levels are more appropriate.

   c. We believe that EB claims should remain excluded from calculation of the trigger rates. Including EB claims results in inequities among states.

3. Federal Supplemental Compensation

   We do not believe that additional weeks of unemployment benefits is the appropriate remedy for unemployment longer than 39 weeks.

4. Short-time Compensation

   We have not taken a position regarding short-time compensation since states are free to proceed in implementing such programs. We do feel that the further development and evaluation of this concept would be valuable.

STATEMENT

Mr. Chairman and members of the Subcommittee, my name is R. Michael Baker. I am Deputy Executive Director of the South Carolina Employment Security Commission, and Vice Chairman of the Interstate Conference of Employment Security Agencies' (ICESA) Unemployment Insurance Committee. I appreciate the opportunity to come before you today and present the views of the ICESA membership regarding the various unemployment insurance proposals under the Subcommittee's consideration.

The Interstate Conference is an organization representing the administrators responsible for providing unemployment insurance and employment services through public employment offices, in the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands.

PROPOSALS BY THE ADMINISTRATION FOR FISCAL YEAR 1983

I would first like to address several of the Administration's fiscal year 1983 proposals concerning unemployment insurance which are being considered by the Subcommittee.

1. Rounding Down of Weekly Benefit Amounts. The Administration's proposal would require state laws to provide that when the weekly benefit amount is not an even dollar amount, that it be rounded down to the next lower whole dollar. The Interstate Conference believes that decisions regarding the amount, duration and conditions under which benefits are paid are properly made at the state level. The federal-state partnership in unemployment insurance has operated successfully to a great extent because states have been able to design programs which satisfy the needs of the state labor market. This measure would be a step into areas which

have traditionally been left to the states, and would be in our opinion an undesirable precedent.

2. Unemployment Compensation for Ex-Service Members. The Administration's proposal would limit the payment of unemployment benefits based on military service to those who are involuntarily discharged under conditions of demobilization, reduction in force or disability incurred while in military service.

The Interstate Conference does not support the changes in the conditions of eligibility for unemployment benefits based on military service which were made by the Omnibus Reconciliation Act of 1981. We take the view that earnings from military service should be treated in the same manner as any other earnings for unemployment benefit purposes. Therefore, we could not support the Administration's proposal which is a small modification to the current program.

REPEAL OF CHANGES TO EB TRIGGER MECHANISMS

I would also like to address the proposals in H.R. 5284, H.R. 5251, and H.R. 5452, which would repeal changes which were made in extended benefit trigger mechanisms by the Omnibus Reconciliation Act of 1981.

1. "National trigger" for extended benefits. Our members believe that elimination of the national trigger for extended benefits was a sound step which improved the extended benefit program by targeting benefits to those states where they are most needed. The payment of extended benefits on the basis of a national insured unemployment rate would require the payment of additional weeks of benefits in states where economic conditions are good.

2. Increase in state extended benefit trigger rates. Currently, extended benefits are payable when a state's insured unemployment rate is at least 4 percent and is also 20 percent higher than it was in the corresponding calendar period in each of the prior two years. The state may choose to waive the 20 percent factor when the rate is at least 5 percent, that is, provide in state law for the payment of extended benefits when the state insured unemployment rate is at least 5 percent regardless of the relationship of this rate to the corresponding period in the prior two years. The Omnibus Reconciliation Act of 1981 increased the required state trigger rate to 5 percent plus a 20 percent increase and the optional trigger to 6 percent for weeks after September 25, 1982.

The extended benefit program is intended to provide additional weeks of benefits during periods of high unemployment. It is always difficult to set thresholds which are appropriate for every state. The levels of insured unemployment which are considered "normal" and "high" vary from state to state. When the increase in state trigger levels was under consideration last year we suggested that states be given the option to set higher trigger levels, perhaps within a federally established range.

Our membership believes, however, that on the whole the increased trigger rates are more appropriate than the current levels and would not support repeal of the legislation under which the higher rates will go into effect after September 25, 1982.

3. Exclusion of extended benefit claims from the insured unemployment rate used to trigger extended benefits. Prior to enactment of the Omnibus Reconciliation Act of 1981, extended benefit claims were included in the

calculation of the insured unemployment rate for extended benefit trigger purposes. This practice actually created two different trigger levels, one for triggering "on" and a different one for triggering "off." In order to trigger "on" 4 percent of those covered by unemployment insurance in a state must be collecting regular UI benefits, disregarding the number who may have already exhausted benefits. In order to trigger "off" there must be less than 4 percent collecting both regular and extended benefits. Because both types of claims are counted when triggering "off" less than 4 percent must be collecting regular benefits in order to offset those collecting extended benefits. Therefore, among several states with the same rate of unemployment based on regular claims, some may be paying extended benefits and others would not be. Our membership believes that the current method which uses the same populations to calculate both the "on" and "off" triggers, is a more equitable approach.

FEDERAL SUPPLEMENTAL COMPENSATION

H.R. 6085 would provide, in states that chose to participate in the program, up to 13 additional weeks of benefits for those who had exhausted all regular and extended benefits. Benefits would be financed from federal general revenues and would be paid during periods when extended benefits are payable.

In general, the Interstate Conference believes that the duration of unemployment insurance benefits should not exceed 39 weeks. We see the unemployment insurance program's function as providing relatively short-term partial wage replacement in order to aid individuals to bridge the gap between jobs. Spells of unemployment longer than 39 weeks are an

economic and social problem which the unemployment insurance program was not designed to remedy. We would support federal action to aid these long-term unemployed workers adjust to a new economic environment, however, we do not believe that simply lengthening the duration of unemployment benefits is the answer.

Should the Congress decide that an extension of unemployment benefits is a necessary part of a federal effort to stabilize the economy and minimize individual hardships, we recommend that the extension be a temporary one and that both the benefit and administrative costs be financed from federal general revenues. We believe that an extension of benefits past 39 weeks goes beyond the insurance concept of unemployment benefits and therefore should be the responsibility of federal general funds rather than financed entirely by employers as regular and extended benefits are. We also believe that any extension of benefits should not include additional qualifying or eligibility requirements since the additional benefits are justified by the poor economic conditions.

SHORT-TIME COMPENSATION

H.R. 5904 would encourage states to provide partial unemployment benefits to individuals whose work weeks are reduced in lieu of temporary layoffs under an employer plan; and provides guidelines for such programs. The Secretary of Labor would be required to develop model legislative language for use by the states, and to provide technical assistance to states concerning short time compensation programs. The Secretary would also be required to conduct an evaluation of short-time compensation programs and present recommendations to Congress and the President.

Short-time compensation, a form of work sharing, is an innovative method of dealing with temporary slow downs in the economy. It has been implemented in California and is in stages of consideration and development in several other states. We support the further development of this concept in those states that wish to implement programs and believe that an evaluation of the impact of the program, as outlined in Mrs. Schroeder's bill, would be very valuable.

In summary, we would urge the Subcomittee reject the Administration's proposal to round unemployment benefit checks to the next lower whole dollar. We cannot support the Administration's proposal to further restrict the payment of unemployment benefits to former military personnel and would instead encourage a modification of the program which would treat wages earned in the military in the same manner as those earned in the private sector. We do not support the repeal of changes made to the extended benefit trigger mechanisms by the Omnibus Reconciliation Act of 1981, nor the extension of unemployment benefits past 39 weeks. Our membership has not taken a position regarding short-time compensation since states are free to proceed in implementing such programs if they choose to do so. We do feel, however, that the further examination and evaluation of this concept would be valuable.

Thank you for the opportunity to present our views concerning these important issues to you. I will be happy to answer any questions you might have.

Mr. MATSUI. Thank you.

Mr. Baker, you indicate basically that anything over 39 weeks is a problem because we will be relating and dealing with the social problem rather than an unemployment problem at that stage. Is that the substance of that part of your testimony?

Am I stating it correctly?

Mr. BAKER. We feel the unemployment insurance program, as I said, was designed to be partial and temporary relief from unemployment.

Mr. MATSUI. Let me ask you a question. I keep hearing from Mr. Iacocca, and certainly from Ford, General Motors, and from the administration, that the situation in Michigan in terms of the auto industry is a temporary phenomenon and we will have economic recovery—the economic recovery that was supposed to occur in August of last year, then the spring of this year, now perhaps the summer, and now some are saying the fall.

I am assuming that is not a social problem or an unemployment problem. Would you consider the situation in Detroit where we have 17-percent unemployment a social problem or would you consider it to be an unemployment problem?

Mr. BAKER. I believe what I actually said was that extended periods of unemployment are economic and social problems rather than a problem that philosophically the unemployment program was designed to deal with. In other words, if you go back and if you look at the philosophies behind unemployment insurance, it was to deal with relatively short periods of unemployment in order to tide those people over, from one job to another.

Mr. MATSUI. I agree, and I think that is—unemployment should be for a short period of time. But at the same time, we keep hearing from the administration and from those who happen to support the philosophy that we have to give the President a chance and his program a chance. So you are asking for unemployment benefits to be kept reasonably short and you are anticipating that the economic mess we are in to be of reasonably long duration. I find that inconsistent.

I am not suggesting you are in favor of the Reagan program, I don't know whether you are or not. If I am understanding your testimony, you believe that the situation in Detroit is one that shouldn't be handled with unemployment benefits if in fact we are going to be consistent and accept the Reagan philosophy that——

Mr. BAKER. It raises the question, Congressman, after 39 weeks, is the situation that exists in places like Detroit, a situation that should be covered by unemployment insurance? Our position is that it is not. It is a long-term situation. I would like to clarify my testimony.

What we say in our testimony is that if it is necessary to provide some type of benefit to individuals beyond the already statutory 39 weeks, that it should be something other than unemployment insurance which is paid for by the employer community. It should be then a program that is financed administratively and for benefits by general revenue funds.

Mr. MATSUI. However, if one of the reasons for giving unemployment benefits is perhaps to keep those people in the area, should

the employer share the cost? The persons may have certain types of skills that you may want in the area.

So I would think that you would want to use unemployment benefits and have the employer share in the costs of those rather than the general taxpayers sharing in the cost of those. But we will have to think about that.

Mr. BAKER. I think the problem comes in that States are having to borrow money anyway to pay unemployment insurance benefits, in those States with high rates of unemployment. I think one of the reasons for that is, for instance, we have the extended benefit program, a Federal program that imposes upon the State an additional payment of benefits that they don't actually collect taxes for.

The State program is designed in most States for 26 weeks. The Federal Government, required conforming legislation for moving it to 39. Now we see an additional request for an additional 13 weeks. We just take the position that once unemployment goes beyond 39 weeks, if there is a program—and we admit the unemployment insurance system throughout the Nation is a good payment delivery system, but we say if these payments are going to be made beyond 39 weeks, they should be financed administratively and for benefit cost by the general revenue.

Mr. MATSUI. Thank you very much, Mr. Baker.

Ms. Wolf, may I ask you one question? Is the American Public Welfare Association doing any studies about those working people who, because of the disregard changes made last year, now find it better off to go on welfare? Do we have any hard data on that?

I know there are situations where that has happened. I don't know if we have any statistics, however. If we do, could they be provided? If not, I am wondering if your organization would be in a position to request that kind of information?

Ms. WOLF. At the present time, we are involved in an ongoing set of surveys trying to get the kind of hard data that you are talking about. Right now, Congressman, to be perfectly honest, the data are anecdotal. The data show us trends. We have only a 4-month period, October through February in which those disregards were in place. In the State of Illinois, the director of the department of public aid is beginning to talk about an increase in caseload which they connect to the disregards.

One of the difficulties as I noted in the testimony, is that we know little, so little at the current time about the changes that occurred under omnibus reconciliation. We find ourselves in a catch-22. We get requests for hard data, which we cannot honestly deliver, but we are confronted with other data generated by the administration, which we don't understand and can't accurately counter as yet.

We don't want to find ourselves in the position of saying what is not the case. We are beginning to see the trends, however, and information will be sent over to you tomorrow or Monday from a new survey which speaks to some of these issues.

Mr. MATSUI. I think it would be well worth it if a group such as yours, or some other group, did a study in which hard data was available within the next 12 months or so; it could be very useful for us in terms of 1983 or 1984 fiscal year budget recommendations.

I would like to thank both of you for being patient and testifying and offering your thoughts and ideas before us today. Thank you.

Mr. MATSUI. At this time I would like to call the next panel, Gerald Hicks from the Child Welfare League of America, Inc.; Marylee Allen of the Children's Defense Fund; and Patricia Curran from the Association of Junior Leagues. Would the three of them please approach us here today?

We also have Jane Erisman. I appreciate you being here. I didn't read your name as you came up. I would like to welcome all four of you here today, this afternoon.

Again, I would like to thank you for the patience you have shown all morning and all afternoon to testify here today. I would like to introduce Mr. Rousselot who will also take part in the hearing.

Mr. ROUSSELOT. Thank you, Mr. Chairman.

I want to say briefly we appreciate your several groups here. We know you are out on the firing line where it all happens as it relates to adoption assistance, foster care and child welfare of various types under the Social Security Act, and we are appreciative of you being here to tell us what is actually happening, whether our 1980 law is beginning to be put in to effect or not, et cetera.

As you know, that law passed the House with only two votes against it. It was overwhelming acceptance by the House and the Senate that changed that law and improved it. And we are especially grateful to you because we know your advance testimony tells us very directly what is going right, what is going wrong, what we need to do to assure that the programs are kept in place and administered in an appropriate way.

Mr. Chairman, I know you have other commitments, so I may be left here and just run the whole committee by myself, which I may do.

Mr. MATSUI. That is a fearful thought, John.

Mr. ROUSSELOT. I know that is enough to shake you up.

Mr. MATSUI. Thank you.

Mr. ROUSSELOT. I know my good chairman here has to—acting chairman, or whatever we call ourselves here today—he may sneak out on you. It isn't because of desire on his part or lack of interest, but because he made some commitments, and I do, too, but we will get into the testimony.

Mr. MATSUI. Please. Perhaps Gerald Hicks, first on this program, could begin testimony.

STATEMENT OF GERALD HICKS, CHAIRMAN, OFFICE OF REGIONAL, PROVINCIAL, AND STATE CHILD CARE ASSOCIATIONS, AND EXECUTIVE DIRECTOR, MICHIGAN FEDERATION OF PRIVATE CHILD AND FAMILY AGENCIES, CHILD WELFARE LEAGUE OF AMERICA, INC.

Mr. HICKS. Thank you, Mr. Chairman.

First and foremost I want to take this opportunity to personally thank the members of this committee for your continuing commitment on behalf of children and their families. We know the hard fight that you fought for us last year, particularly to you, Mr.

Rousselot, for your unwavering commitment to retain the necessary entitlement for poor children.

Mr. ROUSSELOT. We are still fighting and we are not quitting. But we know some of the rumbles we get from downtown and we have not accepted those yet, so we are still fighting the battle, we wish to assure you.

Mr. HICKS. We see ourselves here today to not scold the committee in any way, for you have shown your concern, but to reinforce your efforts in retaining the appropriate Federal role in human services.

Mr. ROUSSELOT. Most of the committee is with you, so the problem isn't here. It is someplace else.

Mr. HICKS. Just to put my testimony in perspective, I am Gerald Hicks, executive director of the Michigan Federation of Private Child and Family Agencies. For the past 5 years, I have served in this capacity as a spokesperson for 80 private nonprofit agencies in the State of Michigan, agencies that serve 50,000 children each year and are represented by 4,500 volunteers and staff in those agencies.

Prior to this, I was the director of the Michigan Office of Children and Youth Services, a public agency. My 25 years in children's services have been almost equally divided between governmental and nongovernmental agencies serving children and their families.

I am here today representing the Child Welfare League of America with its almost 1,800 agencies serving children throughout the United States. These agencies are supported through significant charitable contributions and through various State, Federal, and local government sources. Our agencies provide adoption, daycare, day treatment, foster care, residential treatment, maternity home care, protective and preventive services to families, homemaker services, and emergency shelter services, and services to children and families under stress. Consequently, we are extremely interested in the deliberations of this committee, specifically as it relates to the 1983 budget for Federal services to children.

I am honored to be able to testify here today. I would like to submit my full comments for the record.

Mr. ROUSSELOT. I was chairing before you came, Pete, so I will say without objection so ordered. Didn't I do well?

Mr. STARK. I would rather it didn't become a habit.

Mr. HICKS. As a human services professional, and one who has spent his entire career advocating for children's programs in both the governmental and private sectors, I come before you today to express concern for the underprivileged children and families in our society. Out of my concern comes a present feeling of deep despair, a feeling that permeates the entire community of human services professionals, and the thousands of citizen volunteers who assist us in our efforts to improve the lives of children and their families.

This feeling of despair began in January 1980 upon the presentation of the first New Federalism proposals, and now, 16 months later, the feeling is intensified by the administration budget-cutting strategies proposed for 1983. Our despair grows from the firm belief that these services to children that we have worked so hard to de-

velop over these past 20 years are being reduced or eliminated overnight. While the rhetoric last year promised greater responsibility for the States and increased flexibility to carry out children's programs, it is now clear that the real intent of the budgetary proposals is to get the Federal Government out of the business of the delivery of human services. Once you have cleared away the rhetoric of the administration, you can reach only one conclusion: These policy directions, if allowed to continue, would result in greater suffering for the poor, and particularly for the poor children in our society.

We as a nation have always supported programs for children. Yet it is a sad, clear fact that the brunt of the administration's 1983 budget cuts will be borne by children, as happened with the cuts in fiscal year 1982.

A mere 18 percent of the Federal Government's transfer payments are for people with very limited, or no resources. Yet, 60 percent of the fiscal year 1983 budget cuts are targeted at these programs. The inherent unfairness is obvious. These are the programs in which children represent well over half of the recipients. The inherent unfairness of these cuts which make the poor poorer and the rich richer, can be further seen when one examines what the administration is proposing. The Congressional Budget Office reports that the net effect on family income between fiscal year 1983 tax and benefit cuts are $15,000 increase for those families earning $80,000 and above; and $810 increase for those earning between $20,000 and $40,000—40 percent of the American population; a $240 loss for the 25 percent of the population that makes $10,000 and under.

My purpose in appearing before you today is to encourage you to resist the further erosion of the Federal role in human services programs. There has been, is now, and should always be a significant partnership role with the States and with voluntary organizations in carrying out services to those most in need. The Federal Government has a role not only in providing funding, but in statutory and regulatory areas as well. It is our contention that the categorical statutes and the regulations that flow from them have resulted in dynamic improvement in the lives of children.

To state a few, the movement towards deinstitutionalization, towards permanency planning for children, towards improvement of protective and preventive services for children within their own homes—all have gained their impetus in Federal laws—from you, from your initiative and your caring. This leadership will not continue if each State is first given reduced funding through block grant funds, then is told to set its own priorities. The reason for the original involvement of the Federal Government—previous inequity in services—has not suddenly disappeared. A movement to State control is not a movement to equity. It is only a movement to cut costs.

Categorical programs are good programs, because they show that the Federal Government is interested in assisting States in improving services. This interest is manifested by Federal statute and regulation; and by a willingness to share in the overall cost through the matching formula in order that both the State and Federal Governments have a stake in what happens. They require the

State to continue to invest in the service, at least at the current funding level, while offering inducements to improve services.

We have now had less than 1 year of experience with these new block grant programs. My own experience and observations from others tell me, that as a result of last year's block granting and fund reductions, programs have been significantly reduced without proper prioritization. Quick programmatic reductions or redirections do not always result in the best programmatic decisions for service delivery.

We believe this is a major issue and one that suggests that we should allow the dust to settle on last year's enormous decisions and carefully evaluate what is happening before deciding to have further reductions in program requirements, further reductions in funding, and more repeal and block granting of laws.

Be careful what you do. Remember children are at stake.

Finally, it must be clearly understood by Congress that neither the private nonprofit sector nor State governments can assume the financial and leadership roles of the Federal Government. Our State organization, like those in many other States, has been doing everything in our power to extend the level of charitable giving, and to move to a better balance between governmental, and nongovernmental funding. It is not an easy task.

If we achieve our most optimistic goals, we would raise insufficient funds to underwrite adequately the costs of dependent neglected abused and delinquent children who, if not properly treated, will certainly add to our burden in the next generation. In my State of Michigan, private agencies have a combined annual operational budget of approximately $80 million. Only $17 million of this cost comes from private sources, and only $9 million of that from the United Way fund. If we doubled our private funding efforts, we could still only produce less than 50 percent the total cost of our present level of need.

On behalf of the Child Welfare League, its members, affiliates and, most important, the children and families that we serve, we suggest to you five actions to take which will help children:

One, retain the present categorical laws, the regulations, the funding and the leadership provided by the Federal Government for these programs, especially Public Law 96-272 the Adoption Assistance and Child Welfare Act.

Second, continue to require matching formulas, for they insure participation and prioritization of programs at the State, Federal, and local levels.

Three, approve the bill H.R. 5791, introduced by Chairman Ford, which will restore a modest portion of the massive amounts of money cut from title XX, AFDC, and low income energy assistance.

Fourth, let the dust settle on the present structure before considering any further cuts into various programs affecting vulnerable children and their families.

Lastly, let's take a more extensive look at the Federal role through the enactment of the Select Committee suggested by Congressman George Miller.

I am grateful to members of the committee for allowing us this testimony. I will be glad to answer any questions.

[The prepared statement and additional material follow:]

Statement of the Child Welfare League of America, Inc.

My name is Gerald Hicks. I am the Executive Director of the Michigan Federation of Private Child and Family Agencies. For the past five years, I have served in this capacity as a spokesperson for 80 private, non-profit agencies in the state of Michigan, agencies which serve approximately 50,000 children and whose staff, board members and volunteers number 4,500. Prior to this, I was director of the Michigan Office of Children and Youth Services. My 25 years in children's services have been almost equally divided between governmental and non-governmental agencies serving children and their families. I am here today representing the Child Welfare League of America with its almost 1,6000 members and affiliated agencies serving children and families throughout the United States. These agencies are supported through significant charitable contributions and through various state, federal and local government funding sources. Our agencies provide adoption, day care, day treatment, foster care, residential treatment, maternity home care, protective and preventive services to families, homemaker services, and emergency shelter services. Consequently, we are extremely interested in the deliberations of this committee, specifically as it relates to the 1983 budget for federal services to children.

As a human services professional, and one who has spent his entire career advocating for children's programs in both the governmental and private sectors, I come to you today to express concern for the underprivileged children and families in our society. I want to express my despair, a feeling that permeates the entire community of human services professionals, and the thousands of citizen volunteers who assist us in our efforts to improve the lives of children and their families. This feeling of despair began in January 1980 upon the presentation of the first new federalism proposals, and now, 16 months later, the feeling is intensified by the budget-cutting strategies proposed for fiscal 1983. Our despair grows from the firm belief that these services to children that we have worked so hard to develop over these past 20 years are being reduced or eliminated overnight. While the rhetoric last year promised greater responsibility for the states and increased flexibility to carry out children's programs, it is now clear that the real intent of the budgetary proposal is to get the federal government out of the business of human service delivery. Once you have cleared away the rhetoric of the Administration, you can reach only one conclusion: these policy directions, if allowed to continue, would only result in greater suffering for the poor, and particularly for the poor children in our society.

We as a Nation have always embraced oppressed people. Indeed, America is known as the land of opportunity. Yet it is a sad, clear fact that the brunt of the Administration's 1983 budget cuts will be borne by children, just as the FY 1982 budget cuts were. What kind of opportunity are we providing our children when we deny them their basic survival needs and the services necessary for them to live a fruitful life?

A mere 18 percent of the federal government's transfer payments are for people with very limited, or no resources. Although these means-tested programs represent only 18 percent of the transfer payments, 60 percent of the FY 1983 budget cuts are targeted at these programs. These are the programs in which children represent well over half of the recipients. We protest the inherent unfairness of these budget cuts. The Administration's policies of redistribution of income from the poor to other segments of our society must not be allowed to continue.

We are cognizant that basic economic stabilization is a necessity for a strong America. However, these additional cuts in human service programs will not lead to economic stability, but in the long run will cause increased deficits and human suffering.

My purpose in appearing before you today is to encourage you to resist the further erosion of the federal role in human services programs. There has been, is now, and should always be a significant partnership role with the states and with voluntary organizations in carrying out services to those most in need. The federal government has a role not only in providing funding, but in statutory and regulatory areas as well. It is our contention that the categorical statutes and the regulations that flow from them have resulted in dynamic improvement in the lives of children. The movement towards de-institutionalization, towards permanency planning for children, towards improvement of protective and preventive services for children within their own homes--all have gained their impetus in federal laws--from you, from your initiative and your caring. This leadership will not continue if each state is first given reduced funding through block funds, then is told to set its own priorities. The reason for the original involvement of the federal government--previous inequity in services--has not suddenly disappeared. A movement to state control is not a movement to equity. It is only a movement to cut costs.

The Administration's budget proposals for FY 1983 recommend large reductions in programs aimed at assisting the poor and disadvantaged. The following chart demonstrates certain program reductions enacted, and proposed, under this Administration.

SUMMARY OF THE PRESIDENT'S BUDGET PROPOSALS

	FY 1981	FY 1982	FY 1983
Child Welfare Block Grant	$522 million	$460 million*	$380 million
Title XX Social Services Block Grant	$2.9 billion	$2.4 billion	$1.9 billion
Aid to Families with Dependent Children	$7.0 billion	$7.1 billion	$5.7 billion
Medicaid	$16.8 billion	$17.8 billion	$17 billion
Food Stamps	$10.5 billion	$10.6 billion	$9.5 billion
Child Nutrition	$3.5 billion	$2.8 billion	$2.8 billion
Compensatory Education (Title I)	$3.1 billion	$2.9 billion	$1.9 billion
Education for Handicapped Children	$1.4 billion	$783 million	Block Grant
Juvenile Justice	$100 million	$70 million	0
Comprehensive Employment and Training Act (CETA)	$7.6 billion	$3 billion	$387 million
Work Incentive (WIN)	$365 million	$246 million	0
Head Start	$820 million	$912 million	$912 million
Runaway and Homeless Youth	$10.9 million	$10.5 million	$6.6 million
Child Abuse	$6.8 million	$6.7 million	$4.6 million

*plus $46.9 million CBO estimates will be required in a supplemental appropriation to meet foster care expenditures.

Even a primitive analysis of last year's activity and this year's proposals by the Administration reveals that the poor are getting poorer, and that the

working poor can find safety only in dropping back to AFDC where they will be guaranteed Medicaid protection for their children. America's poor are increasing in numbers. Poverty may become a more permanent status as avenues for upward mobility are eliminated, and children, the next generation, are be consigned to poverty as they were in the 1950's. Clearly, children and children's programs are suffering.

For instance, policy analysts predict that under the proposed Fiscal Year 1983 cuts:

- 750,000 pregnant women will become ineligible for federally-funded, prenatal nutrition programs.
- 141,000 families will no longer receive day care services -- services which allow parents to work.
- AFDC will again be cut, eligibility will be tightened, and struggling children and their families will be faced with the most draconian of decisions -- whether to pay for food or heat, whether to pay for housing or transportation to a job.
- one million school children will not receive meals in the Summer Feeding Program, now slated for elimination.
- Millions of children will have less medical attention.
- Millions of children will have less to eat because of eligibility changes and reductions in the number of meals in day care centers. Have we so quickly forgotten the distended bellies of some of our children only a little over a decade ago?

State officials are predicting that those working in marginal jobs will be forced to stop working and exist on AFDC alone in order to retain medical coverage for their children. This fact was corroborated by Tom Joe, head of the University of Chicago's Center for the Study of Social Policy here in Washington D.C. Joe, a welfare expert, who worked in the Nixon administration, has concluded, "if the Reagan proposals go through, the cuts for the working poor would provide a clear disincentive to work. In 24 states a welfare mother with 2 children would end up getting more disposable income if she depended solely on welfare than if she went out and took (or kept) an average job...In New York, for example, the non-working family would get $508 as against $468" (WASHINGTON POST, February 25, 1982).

The effect of the Administration's new proposals in the food stamp and Aid to Families with Dependent Children (AFDC) programs -- when added to the effect of last year's reductions in these programs -- will be to push low income families deeper into poverty and virtually eliminate any incentives for welfare mothers to work. Joe's study further shows the effects on:

Work Incentives

- Before last year's changes, those AFDC mothers who went out and worked (and earned average wages for working AFDC mothers) were able to raise their disposable incomes to the poverty level in 29 states.

After last year's cuts, average AFDC working mothers were pushed below the poverty line in every state. Under the new proposals, they would be dropped to 85 percent of the poverty line or below in every state.

- Incomes for working AFDC families would be reduced so much that parents who work would generally be little better off -- or worse off -- than AFDC mothers who do not work. In 24 of the 48 states included in the study, the AFDC working mother earning average wages would end up with less disposable income than the AFDC mother who does not work. In California, the working mother would have $82 a month (or nearly $1,000 a year) less in disposable income than the mother who does not work at all. These 24 states include 65 percent of all AFDC working parents. This is shown in Appendix I.

- The 24 states where working parents would be worse off are Arizona; California; Colorado; Connecticut; Georgia; Illinois; Iowa; Kansas; Louisiana; Massachusetts; Michigan; Minnesota; Montana; Nebraska; New Hampshire; New Jersey; New York; Ohio; Rhode Island; Utah; Vermont; Washington; Wisconsin; and Wyoming.

- In half of the remaining states, the average working AFDC mother would end up with from $4 to $29 more per month (or no more than about $1 a day) from working. These states are Florida; Idaho; Indiana; New Mexico; Oklahoma; Oregon; Pennsylvania; South Dakota; Virginia; West Virginia; and the District of Columbia.

- The new proposals would also discourage those who are working from working harder and increasing their earnings. For most AFDC working mothers, each additional dollar they earn after their first four months on the job will result in a net income gain of only one cent. Ninety-nine cents would be "taxed away" through reductions in AFDC and food stamp benefits and increases in Social Security and payroll taxes.

- These extraordinarily high "combined marginal tax rates" destroy work incentives. They are contrary to the philosophy behind the major tax reductions for upper income individuals in last year's tax bill. Wealthy individuals in the highest tax brackets now retain at least 50 cents of each additional dollar they earn, a feature of the tax code designed to maintain incentives and spur productivity.

- These features of the new Administration's proposals run counter to statements made in prior years by David Stockman. In a 1978 article in the Journal of the Institute of Socioeconomic Studies, Stockman warned that welfare recipients needed to be able to keep more, not less, of each additional dollar they earned or else incentives to work would be undermined.

Medicaid

- The work disincentive features are further aggravated by the fact that in 20 states, those working families eliminated from the AFDC

program also lose Medicaid coverage for themselves and their children. In these 20 states, Medicaid is restricted to those on AFDC or SSI. When working families stand to lose Medicaid coverage for their children because they work, and when their disposable incomes are not much higher than those on welfare who do not work, pressures to leave or decline jobs and go back on welfare intensify.

- The new budget proposals would exacerbate this situation by reducing the federal matching rate for the Medicaid costs of working poor families not on AFDC in those states that still cover these families. As a result of last year's substantial reductions in federal Medicaid funding, some of the remaining 30 states are already restricting or even planning to drop medical coverage for the working poor. If this new Medicaid reduction proposal by the Administration is added on top of last year's cuts, larger numbers of states are likely to begin reducing or terminating medical coverage for the working poor.

Child Care Support

- In addition to AFDC, food stamp and Medicaid cuts aimed at the working poor, work disincentive impacts are also beginning to result from sharp cuts in federal funding for day care services provided to low income working families. The combined impact of these reductions has been to force some day care centers to close, to lead others to reduce the number of children they can serve, and to lead many to raise day care fees. When any of these events occur, some low income working families are forced to pay more for child care services. The result is that the costs of working go up, and the gains from working diminish.

Joe concludes by stating that the proposed cuts in entitlements will fail to achieve anticipated savings.

- Because of the work disincentive impacts of the new proposals, they would not achieve the savings predicted by the Administration. Each time a mother leaves a job or fails to accept a job because of the built-in disincentives, there is a substantial increase in the federal government's costs. Federal AFDC and food stamp benefits are far higher for a family that does not work and has no other income than for a family that has some earnings, and therefore qualifies for smaller welfare and food stamp benefits. When the work disincentives in the AFDC/food stamp/Medicaid system become too great and fewer persons work, much of the savings the Congress thought it was achieving disappear, and federal costs actually increase rather than decrease.

- Federal costs for AFDC and food stamp benefits for an average AFDC working family averaged $189.80 a month, prior to last year's changes. The federal cost for a family that does not work would be $279 a month next year. Each time an AFDC mother chooses not to work because of the new disincentive features, federal costs to support her family are 47 pecent higher than if she had taken a job.

The charts in Appendix I from Tom Joe's study show: 1) a comparison of the Effect of Employment on the Monthly Disposable Income of AFDC Families; and 2) the Rise in Federal Costs if Work Effort is Reduced.

P.L. 96-272, THE ADOPTION ASSISTANCE AND CHILD WELFARE ACT OF 1980 vs. ADMINISTRATION CHILD WELFARE BLOCK GRANT PROPOSAL

Description of Current Law

After five years of intensive work, the Adoption Assistance and Child Welfare Act was signed into law on June 17, 1980. In this family support bill, Congress established the principle of permanency for all vulnerable children in America, children who in some cases have been in out-of-home placements for years, or bouncing from one foster care placement to another. This Act mandates major reforms in child welfare services through a painstakingly crafted, sys- tematic restructuring of the child welfare system. Federal financial incen- tives are provided in order for States to:

-- conduct an inventory of all children in foster care over six months;
-- implement a statewide management information system on children in foster care;
-- implement a case review system;
-- implement a family reunification services program; and
-- implement a preventive services program.

Realizing that without alternatives to foster care, the system could not be reformed, Congress placed new emphasis on increasing federal Title IV-B Child Welfare Services funds and created a federal Adoption Assistance Program to provide those necessary alternatives: family strengthening services and incentives for adoption.

Only when specific increases in federal Title IV-B child welfare funds were appropriated to provide these alternatives, and shifted to an advanced funding basis, would a cap on federal expenditures for AFDC-Foster Care be imposed. The law specifies that by October 1, 1982, Title IV-A, AFDC-Foster Care, be converted into a new Title IV-E AFDC-foster care program, and the new Title IV-E Adoption Assistance program for AFDC or SSI special needs children be mandatory. Congress felt so strongly about this bipartisan bill that it enacted it by a 402 to 2 vote in the House, and a unanimous vote in the Senate.

The Administration's budget document gives this rationale for the elimination of P.L. 96-272 through the budget cutting, block-grant process: "Under the current system, States do not have the flexibility to direct their efforts to permanently place children rather than continue foster care arrangements." That statement is totally inaccurate. P.L. 96-272 not only allows but mandates prevention of unnecessary separation of the children from the parent(s); improved quality of care and services to children and their families; and permanency through reunification with parents, through adoption, or other permanency planning.

During the first session of the 97th Congress, the Administration proposed folding child welfare programs into the Title XX Social Services Block Grant and dramatically reducing the funding necessary to implement the required improvements in the child welfare system. Congress did not agree. Instead, Congress reaffirmed its commitment to maintaining the flexibility in P.L. 96-272 and providing necessary alternatives for children in need of services by protecting the law and its funding levels in the Omnibus Budget Reconciliation Act.

Although the law has not had the opportunity to be fully implemented yet, the Administration is once again proposing its elimination. This time, a new Title IV-E Child Welfare Block Grant is proposed by the Administration which would consolidate Title IV-B Child Welfare Services, Child Welfare Training, Title IV-A/E Foster Care, and the Title IV-E Adoption Assistance program for special needs children. This proposal would eliminate the individual entitlement to care for special needs adoptive and foster children, and it would repeal the Title IV-B child welfare services program for vulnerable children that Congress enacted along with the Social Security Act back in 1935.

The authorization level for the block grant would only be $380 million for FY 1983 and thereafter. Since the program would only be authorized at that low level, and since lesser sums could be requested by the Administration and appropriated by Congress, States would never have a firm federal commitment to meet the most basic needs of our vulnerable children, much less the financial support to improve the child welfare system as presently embodied in P.L. 96-272.

P.L. 96-272 Incentives Lost by Inclusion in Block Grant

Open-end Adoption Assistance Program for AFDC and SSI eligible special needs children: Inclusion in a block grant eliminates the entitlement, and the incentive to move children out of foster care and into adoptive homes, by capping the program and reducing the funding for this alternative to foster care. Special needs children require additional specific adoption placement services that States will be hard pressed to provide under reduced funding levels. There will no longer be an incentive to provide these extra adoption services to children over any other service since funding would be limited and from a single source.

According to the National Study of Social Services to Children and Their Families (July 1978):

-- There were at least 100,000 children legally free for adoption in 1977, yet only half of these children were receiving adoption services.

-- If proper and appropriate services were provided, it is estimated that at least another 100,000 children would be free for adoption.

-- Title XX, the current social service block grant program, has provided less than one percent of the available funds for adoption services in any fiscal year since the program's inception (1975).

Increased funding to implement the new child welfare requirements under the Title IV-B child welfare services program: In 1979 the Title IV-B child welfare services program expenditures were approximately $800 million, 93 percent of which were State and local funds. Yet the States were still incapable of implementing the major reforms embodied in P.L. 96-272. The Federal share of the IV-B program was only $56.5 million until passage of P.L. 96-272, which tied specified increases in Federal funding under IV-B to the new program requirements. Federal funds appropriated above $56.5 milion may not be expended for foster care maintenance, adoption assistance or employment-related day care. Title IV-B appropriations, advanced funded, of $163.5 million for FY 1981, $220 million for FY 1982, and $266 million for both FY 1983 and FY 1984, trigger a ceiling on the AFDC Foster Care program. In FY '81 $163.5 million was appropriated for child welfare services. In FY '82, under the Continuing Resolution, $163.5 million was appropriated with H.H.S. having the discretion to cut up to 6 percent from the program. HHS reduced child welfare services funding to $156 million for FY '82. However, the Administration only requested that $107.9 million be appropriated for FY '82 -- an amount which would not trigger the reforms in the law.

Title IV-B incentive funds above $141 million: Only those States that have implemented an inventory of children in foster care; a statewide management information system; a case review system; a family reunification services program; and, after appropriations of $266 million for two consecutive years, a preventive services program, are eligible to draw down Federal funds in excess of their share of $141 million. Additionally, when States have received their share of the full authorization, $266 million, for two consecutive years they must have implemented all of the reforms or else the State's share of Title IV-B funds will be reduced to its share of $56.5 million. There would be no incentive funds to encourage States to implement reforms in the block grant approach.

Increased flexibility through transfer of funds from Title IV-E Foster Care program to Title IV-B Child Welfare Services program: With the availability of alternatives to foster care it is anticipated that foster care expenditures will decline. Therefore, for any fiscal year in which funds appropriated under Title IV-B Child Welfare Services are insufficient to trigger a nationwide ceiling on foster care funds, States have the option of operating their foster care program under a limitation (formula specified in P.L. 96-272). As an incentive to reduce foster care with the provision of family strengthening services, States may transfer funds from their allotment not needed for foster care under Title IV-E over to the Title IV-B child welfare services program at the higher matching rate of 75 percent Federal funds. The block grant proposal cuts federal funding by 47 percent in FY '83 and 50 percent by FY '84 as compared to full implementation of the provisions in P.L. 96-272 (see Appendix II for a comparison of funding levels for child welfare programs). With only one limited source of funding to meet the needs of children, States would not have an incentive to provide additional necessary services to move children out of foster care into families. In fact, States would be hard pressed to move children through the foster care system. The Congressional Budget Office (CBO) estimates that $346 million will be needed to fund just the AFDC foster care program in FY '82. Applying the Administration's inflation rate of 7.5 percent to the AFDC foster care program provides a $372 million cost for FY '83, assuming absolutely no increase in the need for out-of-home care for poor children. Under the Administration's proposed block grant funding level, that

would leave $8 million to provide the services necessary to move children through the system. It is inconceivable that family reunification and pre-placement preventive services, adoption services and assistance, and training for child welfare personnel could be provided for under such dramatic funding reductions.

State and local matching requirement: A 25 percent State/local matching of Federal funds is required in order for States to draw down the 75 percent Federal dollars for the Title IV-B child welfare services program. Inclusion in the block grant eliminates the State/local matching requirement, thereby eroding program dollars further.

Time and resources to implement reforms: Since States are at different stages of development toward these child welfare reforms, under current law mandates are not in place until a State draws down its share of Federal funds in excess of $141 million. The incentive is in place for States to move quickly in order to be eligible for additional resources, but those States that are in the process of developing reforms would not be penalized until sufficient dollars and time have been allowed to have the required services in place. The block grant proposal dramatically cuts the resources to implement the reforms, requires that preventive services be in place by October 1, 1983, and yet allows States which assure the Secretary of HHS that they have not implemented the reforms to receive 80 percent of their allotment plus the portion of the remainder of their allotment which they specify in their report will be spent on those activities.

Conclusion

The Administration would remove the incentives, the fiscal resources, and the flexibility embodied in P.L. 96-272 that Congress so carefully crafted, and still supports, which would enable children to grow up in permanent loving families. The proposed child welfare block grant will perpetuate the pattern of children going into "temporary" foster care and leaving at the age of 18 -- alone, without a family. Foster care is a sound program that has protected many children from harm, but it has been overutilized due to lack of alternative services for vulnerable children and their families. We must not turn back the clock by making the alternatives to foster care unavailable. States must be able to provide a full complement of services, as contained in P.L. 96-272, which a block grant will not allow them to do.

So a law could be lost, a cost-effective and humane law. Congress is being asked to take a lot of money, and a lot of hope, away from kids and to renege on the nation's promise that kids in need of care are entitled to receive care. Add to this the cuts in the basic funding stream for social services for children and their families, the Title XX Social Services Block Grant, the cuts in AFDC and you have an abdication of federal responsibility for children.

The reforms initiated by P.L. 96-272 grew out of substantial work by members of Congress, child welfare service providers, child advocates, and researchers. The results are quite impressive.

Kansas

Marjorie B. Morgan, Commissioner of Social Services in the Kansas Department of Social and Rehabilitative Services (SRS) reports:

"Kansas has an enviable record in showing its concern for people through effective programs to prevent child abuse and neglect and to protect our children. . Any further reductions in the IV-B and IV-E funds will severely curtail our preventive and protective services to protect our children and to maintain intact families.

"As you are aware the expenditure of monies directed toward programs which prevent children from entering foster care and those which enable children to move from the foster care system into permanent adoptive homes are cost effective. In Kansas the Adoption Support program is one of the most cost effective programs we have due to its ability to reduce the number of children caught permanently in the foster care system. The average cost of adoption support for children receiving medical services and/or case maintenance payments is $154.00 per month, per child, while the average cost of foster care is approximately $451.00 per month, per child, excluding medical costs."

In other words, $297 per child, per month, is saved by providing adoption support to needy children. The Administration's 25 percent reduction from FY 1982 funding levels for child welfare programs would mean that 21 additional children could remain in foster care, since the resources to provide additional family building services would be severely curtailed. The anticipated cost of retaining 21 additional children in the foster care system in Fiscal Year 1983 would result in an unnecessary drain of $74,844 on the Kansas foster care budget. However, there is no way to calculate the human cost to a child denied a permanent loving family.

A Special Report on Foster Care prepared by the Kansas Department of Social and Rehabilitation Services (January, 1982) shows the following data from the SRS Child Tracking System:

REASON FOR CLOSING OF CUSTODY CASES

It should be noted that cases are being closed at an increasing rate as permanency planning concepts for children have been implemented. In the first six months of FY 1982, 2,095 children were released from agency custody as compared to 2,952 closing in all of FY 1980 and 2,396 cases in all of FY 1979. Data available in the child tracking system show that children are remaining in the system for a shorter period of time.

	Custody Returned to Parents	Child Reached Age of Majority	Custody Transferred to Other	Adoption Finalized	Other*	Total
July 1981	225	84	32	30	103	474
Aug. 1981	189	78	36	31	105	439
Sept. 1981	167	45	25	18	63	318
Oct. 1981	234	63	29	35	67	428
Nov. 1981	79	24	9	11	18	141
Dec. 1981	166	41	27	25	36	295
					GRAND TOTAL:	2095

* The "Other" code includes "Entered in Error." The decreasing use of this code reflects the agency's efforts at "cleaning-up" this new tracking system.

Arizona

The 1982 Arizona Supreme Court Report and Recommendations regarding Foster Care Review Boards shows the following cost effectiveness data of permanency provisions through adoption subsidy:

Direct Comparative Cost: Foster Care vs. Subsidy
(As of July 1, 1980 -- Source: DES)

Average Cost of Child in Foster Care (Direct cost only)*	Average Cost of Child in Subsidy
$7,014 a year	$1,600 a year

* When all costs, including administration and personnel are involved, the average cost exceeds $10,000 a year.

Virginia

Loudon County Department of Social Services reports:

> "As a result of this agency's knowledge of children's need for permanency, we hired a permanent planning worker in February of 1977. Her caseload was selected on the basis of which foster children had the greatest need for permanency. This worker has been involved with twenty-five families with a total of fifty-five children. Eighteen children have been returned to biological families. Ten other older children remained in continued foster care. Eleven children have been released for adoption. Four of these children were adopted by their foster parents; seven children, including a sibling group of three, were adopted, and we are actively working on placing one child who is emotionally disturbed Four children went into permanent foster care.

(These are older children who wanted to remain with their foster parents and not be adopted.) We are still working on plans for five children. As of February 1982 these efforts have resulted in a financial savings of $128,749 in foster care payments alone. The salary for the permanent planning worker during the same period was $32,000. The Loudon County Department of Social Services currently has forty-five children in foster care placement. We have had a 25 percent reduction in the number of children coming into foster care during a period of time when the population in the county has increased."

The Commonwealth of Virginia foster care program provides substitute homes for 8,183 children. The majority (53 percent) of the children in care are 13 years of age or older.

The 2,145 children who entered foster care last year (Fiscal Year 1980-1981) came into the custody of the local boards of welfare for the following reasons:

Abuse or neglect	40 percent of children
Temporary relinquishment of custody	24 percent of children
Children in Need of Services (Non-Delinquent Violations of Law)	17 percent of children
Parents Requested to be Relieved of Custody	13 percent of children
Delinquency	3 percent of children
Reason Indeterminable from Automated Data System	3 percent of children

Of those children who entered care last year, 41 percent had fathers and 14 percent had mothers who were absent from the home or who deserted. Twenty-seven percent of the children had mothers who needed services primarily to help them manage and care for their children.

As of June 1981, 50.5 percent of the children were white and 49.5 percent were non-white; 53 percent were male and 47 percent were female. Forty-one percent of the children in care had one or more physical, mental, or emotional handicap.

While the average length of time in care is 4.3 years, the number of children who remain in care for over 2 years is decreasing. Of the 3,353 children who left care last year, 47 percent of them were returned to their parents and 16 percent were adopted.

Oregon

A report from the Children's Services Division of the Oregon Department of Human Services on their 1980 Permanency Planning Services Program for children in need of special planning services reveals that:

- special planning services were provided to an average of 580 children per month;
- during one month's time, out of 661 children served, 234 or 35 percent were returned home;

the Oregon Legislature recognized that permanency planning was saving money from out of home placement costs and decided to appropriate funds for preventive and restorative services, including, but not limited to: homemaker, housekeeper, incest treatment, parent training, supportive remedial day care, and intensive family services to address the increasing level of problem severity;

- from March 1980 until December 1980, 370 families were provided intensive family services -- out of 193 children approved for substitute care placement only 10 children required placement due to the provision of intensive family services;

- during the same period (March 1980-December 1980) a control group of 20 families was monitored -- all required placement;

- results show that with three months of intensive family services, 95 percent of the children will remain at home, or be returned home, who would have required out of home placement without the intensive services;

- cost effectiveness of permanency planning services:
  -- average monthly cost of substitute care per child is $754;
  -- average monthly cost of services per child is $333;
  -- in 1958 average length of stay for a child in substitute care was 58 months;
  -- in 1979 average length of stay for a child in substitute care was reduced to 26 1/2 months;
  -- from March 1980 to January 1981, the Department estimated savings of $945,000, using the average length of stay for children in out of home care, for children not placed in substitute care;
  -- Oregon estimates an 800 percent return on their investment in services to children and their families based on costs of the average length of stay in out of home care.

California

COST EFFECTIVENESS OF ADOPTIVE PLACEMENT VS. BOARD AND CARE COST
OF LOS ANGELES COUNTY CHILDREN
Fiscal Year 1979-80

All Placements (557) (a)	First 12 Months	To Age 18
Board and Care Costs	$1,696,452	$18,430,651
Aid for Adoption Costs	- 226,093	- 904,373 (b)
SAVINGS:	$1,470,359	$17,526,278
Placements Without AAC (398) 69.8% of Total		
Board and Care Costs	$1,140,064	$13,517,040
Aid for Adoption Costs	-0-	-0-
SAVINGS:	$1,140,064	$13,517,040
Placements With AAC (168) 30.2% of Total)		
Board and Care Costs	$ 556,388	$ 4,913,611
Aid for Adoption Costs	- 226,093	- 904,373
SAVINGS:	$ 330,295	$ 4,009,238

(a) Does not include 31 out-of-county children placed with Los Angeles County families for whom savings will accrue in the county from which they were placed.

(b) Based on 4-year average period of subsidy.

Title XX Social Services Block Grant

As part of President Nixon's "new federalism", federal programs for social services were consolidated under Title XX of the Social Security Act as a capped block grant program administered by the states in 1975. With a federal funding ceiling of $2.5 billion and a 25 percent matching requirement, all social service programs formerly under AFDC and aid to the aging, blind and disabled (Titles I, IV-A, X, XIV and XVI of the Social Security Act) became a single block grant to states. Social services were separated from income maintenance and assigned a primary goal of reducing dependency and promoting self sufficiency. States were given responsibility for determining their own social services needs and for allocating resources to provide soical services, with a condition that there be broad public participation in this decision-making process.

This program is the principal Federal funding source for the full range of social services as determined by the State. Services are to be directed toward five goals: 1) self-support; 2) self-sufficiency; 3) prevention and remedy of neglect, abuse or exploitation of children or adults and preservation of families; 4) prevention of inappropriate institutional care through community based programs; and 5) provision of institutional care where appropriate.

Approximately 62 percent of the program funds have been expended for services to children and their families. A large percentage of day care for low-income families, which enables parents to work, is provided under Title XX. Increased demand on services offered under the Title XX program is expected now that the impact of other reductions in programs like AFDC, Medicaid, food stamps, housing, CETA, and low-income energy assistance is felt. Additionally, substantial funding cuts have strained the States' ability to implement the bipartisan supported reforms contained in the Adoption Assistance and Child Welfare Act of 1980. Any further reduction in the Social Services Block Grant could effectively halt States' efforts to find permanent homes for children.

Under the Omnibus Budget Reconciliation Act, the Title XX Block Grant was amended to incorporate social services, day care, state and local training, and social services for the territories into a new block grant program to the States. States were given increased flexibility within this new block grant. There is no longer a state match requirement, State planning and public participation requirement, earmarking of specific funds for day care, nor targeting of funds toward low-income recipients. Funding was cut by 23 percent (almost $700 million) for FY 1982. The current funding level for FY 1982 is $2.4 billion as compared to the $3.099 billion it would have been before Reconciliation. The Office of Human Development Services estimated that, with inflation, $4.7 billion in federal funds would have been required to maintain FY 1980 social services at the level orginally funded with $2.5 billion when the Title XX program began. States have been coping with seven years of tight funding by reducing services, restricting eligibility, eliminating services to less powerful political constituencies, and redeploying funds where possible.

The Administration has requested an additional 20 percent cut ($476 million) from the level enacted during Reconciliation for the FY 1983 Title XX program. New language is proposed that would delete the incremental increases in funding for the program and would also allow Title IV-C Work Incentive Programs (WIN) and WIN demonstration projects to be provided for under Title XX although no additional revenues would be provided. WIN was funded at $365 million in FY 1981 and $256 million in FY 1982, zero funding is requested for FY 1983. The Administration budget request of $1.974 billion would be the total amount of federal funds available for Title XX including the WIN programs and demonstraton projects should States choose to continue those programs. The FY 1983 budget request represents a loss of $1.225 billion (a 38% cut) in federal dollars for Title XX just since August 1981 (see Appendix III).

In order for States to plan their programs rationally and expend resources in a responsible manner, stabilization of federal funding is needed. States are still reeling from the impact of last year's budget cuts and will not be able to meet the needs of vulnerable children and their families or other individuals in need of services. Various parts of the state social service systems will begin to collapse.

Given that this is a period of high inflation and increasing unemployment compounded by a severe winter, families are experiencing greater and greater stress. Unfortunately, too often this stress translates into child abuse and neglect, family disorganization and juvenile delinquency. This increases the need for social services to the family and its individual members.

The recently completed National Study of the Incidence and Severity of Child Abuse and Neglect projects an incidence rate of approximately one million children who are seriously abused or neglected in this country each year. The numbers of these children who are reported to public child protection agencies for investigation and child protective action continues to increase, with the rate of substantiated cases increasing over 17 percent in the last two reporting years.

The vast majority of protective services are provided for through the Title XX program. It is impossible to understand how the Administration expects States to meet a 17 percent increase in the need for protective services under a program suffering from a 38 percent reduction (enacted and proposed) since August 1981.

Let's look at the cuts in Title XX:

- Kansas reports that it has reduced day care by 50 percent, which will cause additional problems for marginally employed families.

  "In the first six months of Kansas' fiscal year 1982, 1,894 families were confirmed as abusing/neglecting their children; an additional 1,169 families were found to be at risk of future abuse or neglect of their children unless preventive services were available. Under increasing stress, not only will there be more families who abuse and neglect their children, but the children and youth will be subjected to more severe abuse and greater neglect." (See Appendix IV for incidence of child abuse/neglect in Kansas.)

- Kansas sustained a cut of $6.9 million in FY 1982, and an additional 20 percent cut of $4.9 million is proposed for FY 1983.

- Oregon sustained a $4.4 million cut in FY 1982, and an additional 20 percent cut of $5.4 million is proposed for FY 1983.

- Delaware sustained a $1.6 million cut in FY 1982, and an additional 20 percent cut of $1.2 million is proposed for FY 1983.

- Missouri sustained a $14 million cut in FY 1982, and an additional 20 percent cut of $10.3 million is proposed for FY 1983.

- Rhode Island sustained a $2.9 cut in FY 1982, and an additional 20 percent cut of $2 million is proposed for FY 1983.

- Pennsylvania sustained a $35.2 million cut in FY 1982, and an additional 20 percent cut of $24.7 million is proposed for FY 1983.

- Wyoming sustained a $971,000 cut in FY 1982, and an additional 20 percent cut of $983,000 is proposed for FY 1983.

- Minnesota sustained an $11 million cut in FY 1982, and an additional 20 percent cut of $8.5 million is proposed for FY 1983. According to Public Welfare Commissioner Arthur E. Noot, "Minnesota has not had such a shortfall in revenue since the early '30s." There is less coming in from corporate taxes and sales taxes. If the economy does not pick up, the shortfall will continue. Noot anticipates there will be a $1 billion shortfall out of an $8 billion budget. On top of this are the reductions in Federal funds to Minnesota. Noot estimates that, given the new regulations, Minnesota will lose $21.1 million in Federal AFDC funds and $8.3 million in Medicaid funds.

- Colorado sustained a $5 million cut in FY 1982, and an additional 20 percent cut of $6 million is proposed for FY 1983.

- Idaho sustained a $2 million cut in FY 1982, and an additional 20 percent cut of $2 million is proposed for FY 1983.

- Iowa sustained a $8.6 million cut in FY 1982, and an additional 20 percent cut of $6 million is proposed for FY 1983.

- Louisiana sustained a $10 million cut in FY 1982, and an additional 20 percent cut of $8.7 million is proposed for FY 1983.

- Virginia sustained a $13.7 million cut in FY 1982, and an additional 20 percent cut of $11.6 million is proposed for FY 1983.

- Texas sustained a $27.8 million cut in FY 1982, and an additional 20 percent cut of $29.7 million is proposed for FY 1983.

- Hawaii sustained a $2 million cut in FY 1982, and an additional 20 percent cut of $2 million is proposed for FY 1983.

- New York sustained a $58.9 million cut in FY 1982, and an additional 20 percent cut of $36.7 million is proposed for FY 1983.

- Montana sustained a $2.7 million cut in FY 1982, and an additional 20 percent cut of $1.6 million is proposed for FY 1983.

- Oklahoma sustained a $7.2 million cut in FY 1982, and an additional 20 percent cut of $6.3 million is proposed for FY 1983.

- New Jersey sustained a $21.7 million cut in FY 1982, and an additional 20 percent cut of $15.4 million is proposed for FY 1983.

- Maine sustained a $3.3 million cut in FY 1982, and an additional 20 percent cut of $2.3 million is proposed for FY 1983.

The results are being felt. For State human service agencies, the issue is money, not New Federalism. So concludes the report, "A Study of the Implementation of the Social Service Block Grant in State Human Service Agencies with a Primary Focus on Ten Key Issue Areas," submitted to the Department of Health and Human Resources by the American Public Welfare Association. The

states were polled to obtain information about how they are dealing with issues related to the implementation of the new social services block grant. Thirty-three states completed the questionnaire. The study reports some fascinating, if random, facts:

- California has reduced the number of social service programs by 40 percent and has modified 30 percent of those remaining.
- Idaho has identified three major service areas and plans to elminate one in its entirety rather than reduce services in each.
- Colorado is transferring day care for employed AFDC recipients to Title IV-A, and Rhode Island is considering such a shift.
- Iowa, New Hampshire, and North Carolina plan to utilize Title IV-B funds for Title XX service components.
- Providers in West Virginia will be asked to sustain cuts proportionate to departmental cuts.
- On the other hand, Kentucky and North Carolina are cancelling many service contracts.

Random facts notwithstanding, the study's conclusion is clear:

> "The most common and expected trend that appears in the state responses is the emphasis on how the states are absorbing the budget cuts in social services. Few comments are specifically directed at the new block grant mechanism itself."

Who Will Pick Up the Tab?

We must sift through the rhetoric and clearly understand that there are entitlements in this new budget -- entitlements for defense -- and tax breaks (protections) for certain groups. These entitlements are to be financed by disentitling other groups. Thus AFDC, Food Stamps, Medicaid, the Social Services Block Grant, etc. will again be slashed to finance defense and tax breaks.

Earlier philosophies of new federalism were political philosophies which provided sufficient amounts of revenues, collected from citizens, to allow the states to finance programs now funded out of Washington. This brand of new federalism is not a political philosophy. It is a revenue philosophy -- shift costs elsewhere. TIME Magazine describes Senator Charles Percy (R-Ill.) as wondering whether the Administration's real commitment is to new federalism or to budget-cutting; he asked, "Is this a pretext for budget-cutting?"

Will the states pick up the fiscal slack? The answer is a resounding NO. All states, except five, wound up in the red last year. And those few states in the black are refusing to bridge the fiscal gap. Forty-five states are confronting modest to overwhelming deficits.

Will business pick up the slack? C. William Verity, Jr., Chairman of Armco, Inc., and recently appointed chairman of the President's Task Force on Private Sector Initiative, said, "It is unrealistic to expect us to fill what is not just a gap but a chasm." Corporate philanthropy gave $2.3 billion in 1980. If they double their giving to $4.6 billion, they will still be roughly $50 billion short of what the Administration has cut.

Or hear Lindsay H. Clark, Jr. in the WALL STREET JOURNAL, February 2, 1982, "The business of business isn't charity. Most corporations are ill-equipped to do an especially wise job in this area and they know it...President Reagan can't count on a great deal of new help from the corporate community. The conference board survey released last week indicated that companies are unlikely to increase their contributions budget this year to fill the gap caused by cutbacks in Federal spending. Wise companies will keep their eyes on their corporate interests and, for the rest, let their stockholders do their own giving."

Conclusion

Alan Pifer, however, outgoing president of the Carnegie Corporation of New York, is extremely worried about children, "In 1950 there were 16 workers for every Social Security beneficiary... In 1980 the ratio had dropped to 3 to 1. By the year 2010 if there are no changes in the Social Security system, the ratio will be 2 to 1...The nation must do everything in its power to see that today's children, the prime age workers of 20 years from now, get off to the best possible start in life... It is vital that these small cohorts not be depleted even further by casualties...youngsters who never acquire basic literacy, and numeracy skills, whose health is poor, who are malnourished, who are neglected, and who fall into delinquency. If they become casualties, the loss is twofold: they fail to become productive citizens, and they become an additional burden on what will already be an overtaxed generation.

In short, Pifer says that too few will be supporting too many. He exhorts us to think in terms of our national security, not simply in terms of weapons, but in terms of the quality of the nation's human resources, its morale and spirit. Pifer concludes, "the current move to cut the funding of social programs for children seems to me short-sighted and irresponsible in the extreme. Rather than reducing these services we should as a matter of national interest, and if you will of self-interest, be sharply augmenting them" ("The Environment for Human Services in the '80's").

Now I wish to share with you similar thoughts from two unlikely sources. The first quote is from J. Michael Monro, President of Time, Inc.:

> Combined with tax cuts that benefit mostly higher income people, this program adds up to a major redistribution of money in our society from the lower end to the upper end of the scale...The group that concerns me most is children, and families headed by women...We can't afford to let the productive potential of any of today's children languish because of our neglect...They are vital to our future and we should help them get the best possible start in life. That means good schools, good nutrition, health care, housing, and stable homes. Yet we're moving in the opposite direction now and in the foreseeable future. That disturbs me and I think it should disturb you." (NEW YORK TIMES, Sunday, November 15, 1981)

And hear what Norman Miller, chief of the WALL STREET JOURNAL's Washington Bureau has to say,

> "It is fundamentally unfair for the Administration to concentrate almost exclusively on cutting assistance to the poor while simultaneously providing an excessive array of tax breaks to affluent persons and corporations."

The Most Reverend Joseph M. Sullivan, Auxiliary Bishop of Brooklyn said it this way, "The poor have a right to have their minimum needs met before the less basic desires and wants of others are fulfilled." (Testimony before the House Committee on the Budget, February 22, 1982).

Should not this great nation be proud to help support its children, its future? Did this nation not pass the Interstate Commerce Act in 1887 after states had failed utterly to control the sprawling railroads? Did not the government step in to protect the weak, elderly, young, homeless and unemployed during the economic collapse of the 1930's? Would we dream of scrapping our centralized banking mechanism of the Federal Reserve System? Would we scrap our interstate highway system, our western water projects, TVA and protection of basic civil rights?

The League is most worried about government abdication of responsibility for vulnerable children, and a potential state social Darwinism that could tear at this country's vitals.

Is the only role of the Federal government the national defense? Has not this country said that it stands to protect the poorest and the weakest? It must not turn its back on this commitment. The federal government is the moral court of last resort. This country's promise to shield the truly needy and weakest from hostile economic and social conditions is being broken. We are interdependent. If I am frightened by anything coming out of Washington today, I am most frightened by this state Social Darwinism -- the claim that states can and should do it all. No, our society is too complicated for that. Arizona does have a responsibility for the New York subway system, strange as it may sound. For that subway system binds the New York community just as federally supported water projects bind parts of the southwest.

If states alone have to bear the costs of helping low-income families, how will they manage during periods of economic decline or recessions which they cannot control and when the number of people needing help increases as revenues decrease. President Reagan has said that people can vote with their feet. However, I question how poor children and their families unable to obtain the basic necessities in life could secure the additional resources to enable them to move to a more benevolent state. This new federalism, would obliterate the principle of public policy in this country that has existed for longer than the average age of most members of Congress. This principle holds that there are some matters of national interest which must be pursued on a national level, and that there is a national interest in seeing that these matters are successfully pursued. It has been demonstrated that some social problems are so difficult that only the resources of the Federal government can have an impact on them.

It is one thing for states to compete for a formulated share of Federal progam dollars, but it is another matter to vigorously compete with other states and regions for sparse resources. Any state that makes a decision to raise taxes to support the continuation of these programs for children could find itself at a disadvantage with other states which choose to do less because they would likely encourage businesses and individuals to relocate elsewhere.

I sincerely hope that we as a Nation are not wholly self-interested, that we have not lost the notion of the common good, and how absolutely dependent this nation is upon its youngest citizens.

Action You Can Take:

We have now had less than one year of experience with block grant formulas. My own experience and obervations from others, tell me that as a result of last year's block granting and fund reductions, programs have been significantly reduced, but without proper prioritization. Quick, programmatic reductions or redirections do not always result in the best programmatic decisions for service delivery. We believe that this is a major issue and one that suggests that we should allow the dust to settle on last year's enormous decisions and carefully evaluate what is happening before deciding to have further reduction in program requirements, further reduction in funding, and more repeal and block-granting of laws. Be very careful. Remember, children are at stake.

Finally, it must be clearly understood that neither the private non-profit sector nor state government can assume the financial and leadership roles of the federal government. Our state organization--like those in other major states--has been doing everything in our power to extend the level of chritable giving and to move to a better balance between governmental and non-governmental funding. It is not an easy task. If we achieve our most optimistic of goals, we will not raise sufficient funds to underwrite adequatedly the costs of dependent, neglected, abused and delinquent children who, if not properly treated, will certainly add to our burden in the next generation. In my State of Michigan, private agencies have a combined annual operation budget of approximatedly $80 million. Only $17 million of this comes from private sources, and only $9 million of that comes from United Way funds. If we double private funding, we still only meet less than 50 percent of the need.

On behalf of the Child Welfare League of America, its members, its affiliates and most important, the children and families that we serve, let me urge you to take some specific steps to help children:

1) Retain the categorical laws the regulations, the funding and the leadership provided by the federal government for these programs, especially PL 96-272, the Adoption Assistance and Child Welfare Act of 1980.

2) Continue to require matching formulas, for they insure a participation and prioritazation of programs at the state, federal and local levels.

3) Immediately approve the Bill HR 5791, introduced by your Chairman, the Honorable Harold Ford, which would restore a modest amount of the massive amounts of money cut from Title XX, AFDC, and Low Income Eergy Assistance.

4) Let the dust settle on the present structure before considering cutting further into programs affecting vulnerable children and their families.

5) Support the establishment of a Select Committee on Children, Youth, and Families as proposed by Congressman George Miller (HR 421).

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Income* of AFDC Families: Comparison of FY 1981, FY 1982, and FY 1983

APPENDIX I-A

	FY 1981 Prior to Budget Reconciliation Act			FY 1982 Current Law			FY 1983 Budget Proposals		
	DISPOSABLE INCOME			DISPOSABLE INCOME			DISPOSABLE INCOME		
	Non-Working Parent	Working Parent	Difference**	Non-Working Parent	Working Parent	Difference**	Non-Working Parent	Working Parent	Difference**
ALABAMA	$307	$406	$ 99	$307	$365	$ 59	$301	$347	$ 46
ARIZONA	370	449	79	370	374	4	363	355	– 8
ARKANSAS	311	464	154	311	454	144	305	420	115
CALIFORNIA	584	758	174	584	537	– 47	561	479	– 82
COLORADO	468	601	133	468	477	9	435	424	– 11
CONNECTICUT	563	731	168	563	534	– 29	509	470	– 40
DELAWARE	438	589	151	438	480	42	405	438	33
DIST. OF COLUMBIA	450	616	166	450	499	49	427	453	26
FLORIDA	377	491	114	377	402	25	368	377	10
GEORGIA	362	453	91	362	368	6	351	347	– 4
IDAHO	466	634	168	466	512	46	436	460	24
ILLINOIS	449	590	141	449	459	10	428	420	– 8
INDIANA	419	564	144	419	463	44	398	426	29
IOWA	505	664	159	505	501	– 4	466	450	– 16
KANSAS	467	612	145	467	478	10	445	433	– 13
KENTUCKY	376	522	147	376	470	94	354	432	78
LOUISIANA	366	449	83	366	371	5	356	349	– 7
MAINE	462	649	187	462	526	64	428	464	37
MARYLAND	432	590	158	432	485	54	408	443	35
MASSACHUSETTS	518	685	167	518	511	– 6	478	459	– 19
MICHIGAN	513	675	162	513	532	19	489	482	– 6
MINNESOTA	573	742	169	573	537	– 36	522	472	– 50
MISSISSIPPI	287	504	216	287	442	154	279	410	131
MISSOURI	409	570	161	409	483	74	393	442	49
MONTANA	472	566	94	472	478	6	431	423	– 8
NEBRASKA	500	656	156	500	498	– 2	460	447	– 12
NEW HAMPSHIRE	505	649	145	505	515	10	457	444	– 13
NEW JERSEY	500	661	162	500	497	– 3	466	451	– 15
NEW MEXICO	417	546	129	417	439	22	393	406	13
NEW YORK	537	703	166	537	525	– 12	508	468	– 40
NORTH CAROLINA	369	504	135	369	441	72	357	410	53
NORTH DAKOTA	525	684	159	525	521	– 4	464	464	0
OHIO	422	543	121	422	430	8	403	393	– 10
OKLAHOMA	434	587	152	434	468	34	415	430	15
OREGON	462	628	166	462	496	33	441	451	10
PENNSYLVANIA	465	631	166	465	501	36	439	455	16
RHODE ISLAND	567	720	152	567	567	0	526	502	– 24
SOUTH CAROLINA	334	495	161	334	453	119	316	418	102
SOUTH DAKOTA	478	633	155	478	489	12	441	445	4
TENNESSEE	322	456	134	322	438	116	305	405	100
TEXAS	306	409	104	306	372	66	301	353	52
UTAH	503	629	126	503	511	9	471	460	– 11
VERMONT	596	768	172	596	543	– 53	542	478	– 64
VIRGINIA	417	549	132	417	439	22	398	407	10
WASHINGTON	551	713	161	551	545	– 6	518	485	– 33
WEST VIRGINIA	380	493	112	380	404	24	366	378	12
WISCONSIN	579	750	171	579	537	– 42	539	467	– 72
WYOMING	471	593	122	471	479	8	437	426	– 10
US AVERAGE	$450	$595	$146	$450	$476	$ 26	$423	$432	$ 9

*Disposable income figures shown for each state represent the sum of earnings, AFDC, Food Stamps, EITC, and energy assistance benefits for either a working or non-working family in that state. Earnings are calculated based on the average earnings for an AFDC family in that state.

**Amounts may not add due to rounding.

Rise in Federal Costs if Work Effort is Reduced

APPENDIX I-B

	Federal Costs for Working Families [1]			Federal Costs for Families No Longer Working [2]		
	AFDC	FOOD STAMPS	TOTAL	AFDC	FOOD STAMPS	TOTAL
ALABAMA	$ 36.4	$160	$196.4	$ 72.8	$183	$255.8
ARIZONA	$ 84.8	$138	$222.8	$109.7	$161	$270.7
ARKANSAS	$ 6.5	$141	$147.5	$ 76	$183	$259.0
CALIFORNIA	$172	$0	$172	$251	$55	$306.0
COLORADO	$105	$90	$195	$145	$122	$267.0
CONNECTICUT	$143	$33	$176	$194	$83	$277.0
DELAWARE	$ 76	$97	$173	$120	$139	$259.0
DIST. OF COL	$ 81.5	$78	$159.5	$143	$127	$270.0
FLORIDA	$ 66.6	$127	$193.6	$108.6	$159	$267.6
GEORGIA	$ 76.9	$141	$217.9	$108.8	$168	$276.8
IDAHO	$104.7	$65	$169.7	$179.8	$122	$301.8
ILLINOIS	$ 95.5	$91	$186.5	$145	$126	$271.0
INDIANA	$ 73.2	$105	$178.2	$124	$143	$267.0
IOWA	$118.4	$65	$183.4	$167	$106	$273.0
KANSAS	$106.5	$83	$189.5	$158	$117	$275.0
KENTUCKY	$ 45.7	$124	$169.7	$108.8	$166	$274.8
LOUISIANA	$ 87.2	$142	$229.2	$115.0	$166	$281.0
MAINE	$134.6	$70	$204.6	$178.8	$127	$305.8
MARYLAND	$ 73	$92	$165	$126.5	$138	$264.5
MASSACHUSETTS	$121.5	$49	$170.5	$176	$99	$275.0
MICHIGAN	$143.5	$54	$197.5	$192	$94	$286.0
MINNESOTA	$149	$23	$172	$205	$76	$281.0
MISSISSIPPI	$ 55.3	$126	$181.3	$ 57.2	$183	$240.2
MISSOURI	$ 67.2	$97	$164.2	$133.2	$145	$278.2
MONTANA	$149.4	$103	$252.4	$168.5	$125	$293.5
NEBRASKA	$122.4	$69	$191.4	$171.1	$110	$281.1
NEW HAMPSHIRE	$126.8	$77	$203.8	$169.7	$111	$280.7
NEW JERSEY	$115	$63	$178	$168.5	$106	$274.5
NEW MEXICO	$ 95.3	$111	$206.3	$145.5	$145	$290.5
NEW YORK	$143	$40	$183	$204.5	$84	$288.5
NORTH CAROLINA	$ 55.9	$126	$181.9	$117.5	$165	$281.5
NORTH DAKOTA	$134.3	$66	$200.3	$177.8	$107	$284.8
OHIO	$ 86.2	$109	$195.2	$125.3	$140	$265.3
OKLAHOMA	$ 92.1	$91	$183.1	$149.7	$133	$282.7
OREGON	$ 92.5	$72	$164.5	$154	$120	$274.0
PENNSYLVANIA	$ 94.1	$73	$167.1	$155.9	$121	$276.9
RHODE ISLAND	$178.9	$40	$218.9	$226.7	$74	$300.7
SOUTH CAROLINA	$ 37.1	$134	$171.1	$ 74.1	$183	$257.1
SOUTH DAKOTA	$129.9	$79	$208.9	$189.4	$120	$309.4
TENNESSEE	$ 15.6	$149	$164.6	$ 68.3	$183	$251.3
TEXAS	$ 26.4	$159	$185.4	$ 57.4	$183	$240.4
UTAH	$176.2	$76	$252.2	$224.9	$104	$328.9
VERMONT	$205.4	$4	$209.4	$286	$65	$351.0
VIRGINIA	$ 79.5	$108	$187.5	$125.7	$143	$268.7
WASHINGTON	$155.5	$40	$195.5	$211	$78	$289.0
WEST VIRGINIA	$ 79.8	$128	$207.8	$125.5	$160	$285.5
WISCONSIN	$169.1	$11	$180.1	$240.1	$66	$306.1
WYOMING	$111.5	$93	$204.5	$145	$122	$267.0
	Average: $189.8			Average: $279.4		

1 Prior to the Budget Reconciliation Act of 1981
2 Under the new FY 1983 proposals

APRIL 1982

CHILD WELFARE SERVICES, FOSTER CARE, AND ADOPTION ASSISTANCE FUNDING LEVELS

(in millions - some figures are rounded)

	Title IV-B Services	Title IV-E/A AFDC-Foster Care	Title IV-E Adoption Assistance	Total	Percent Reduction from P.L. 96-272 Recommendations
.L. 96-272 xpectation Y '81	$163.55[a] regular appropriation	$349 capped	$10 entitlement	$522.55	0
.L. 96-272 -ppropriation Y '81	163.55 regular appropriation	349 capped	10 entitlement	522.55	0
.L. 96-272 xpectation Y '82	220 advanced funded	395 capped	10 entitlement	625	0
'.L. 96-272 ppropriation Y '82	156.326[b] not advanced funded	299 entitlement (345.9)[c]	5 entitlement	460.326 (507.226)[c]	26% (19%)[c]
'.L. 96-272 xpectation Y '83	266 advanced funded	434.5 capped	10 entitlement	710.5	0
dministration's Y '83 Proposed hild Welfare lock Grant	REPLACED BY NEW TITLE IV-E CHILD WELFARE BLOCK GRANT ALSO INCLUDES CHILD WELFARE TRAINING PROGRAM[d]			380.123	47%
	Repealed	Amended no entitlement	Amended no entitlement		

(a) IV-B funding scheduled to shift to advanced funding mechanism in FY '81 for FY '82, and thereafter, appropriations.
(b) H.H.S. has cut approximately 4½% from IV-B appropriation level of $163.55 million.
(c) Supplemental appropriation will be required; CBO estimates $345.9 million will be needed to meet foster care expenditures.
(d) Child welfare training program funded at $5.2 million in FY '81 and $3.823 million in FY '82.

NOTE: FY '83 BLOCK GRANT PROPOSAL CUTS $127.103 MILLION (25%) FROM FY '82 FUNDING LEVEL, BASED ON ENTITLEMENT.

APPENDIX II-B

child welfare league of america, inc.

COMPARISON OF P.L. 96-272 FULL IMPLEMENTATION FUNDING LEVELS WITH ADMINISTRATION'S CHILD WELFARE BLOCK GRANT PROPOSAL
(in millions - some figures are rounded)

	P.L. 96-272 Expectation(1)	Administration's Child Welfare Block Grant(2)	Percent Cut(3)	Dollars Cut(3)
FY '83	$710.5	$380	47%	$334.2
FY '84	$753.95	$380	50%	$377.6

1) Based on scheduled increases in IV-B child welfare services; IV-E foster care at anticipated capped levels; and assumed only $10 million for IV-E adoption assistance entitlement program. DOES NOT INCLUDE CHILD WELFARE TRAINING PROGRAM.
2) Authorization level; therefore, a lesser amount could be appropriated. Child welfare training program included ($3.823 million in FY '82).
3) Child welfare training funds factored into cut.

CUMULATIVE LOSS OF FUNDING TO IMPLEMENT P.L. 96-272 REFORMS UNDER CURRENT TITLE XX BLOCK GRANT AND ADMINISTRATION PROPOSED CHILD WELFARE BLOCK GRANT
(in millions)

	FY '82 Title XX Dollars Cut	Proposed Child Welfare Block Grant Cut	Cumulative Loss
FY '83	$749	$334.2	$1,083.2
FY '84	799	377.65	1,176.65

CUMULATIVE LOSS OF FUNDING TO IMPLEMENT P.L. 96-272 REFORMS UNDER ADMINISTRATION PROPOSED FY '83 BUDGET FOR TITLE XX AND CHILD WELFARE BLOCK GRANT
(in millions - some figures are rounded)

	Proposed Title XX Dollars Cut Since August 1981*	Proposed Child Welfare Block Grant Cut	Cumulative Dollar Loss
FY '83	$1,225	$334.2	$1,559.2
FY '84	1,325	377.65	1,702.65

* Does not include funding loss due to zero budget in FY '83 for WIN programs which may be provided under Title XX (WIN funded at $365 million in FY '81, $256 million in FY '82).

APPENDIX III

child welfare league of america, inc.

TITLE XX BLOCK GRANT FUNDING LEVELS
(in billions - some figures are rounded)

	Statutory Ceilings in 1980 Child Welfare Act (P.L. 96-272)	Final FY'82 Budget Reconciliation Levels	Percent Cut	Dollars Cut
FY '82	3.099*	2.4	23%	.699
FY '83	3.199	2.45	23%	.749
FY '84	3.299	2.5	24%	.799
FY '85	3.399	2.6	24%	.799

* CBO FY '82 baseline data

COMPARISON OF CURRENT TITLE XX FUNDING LEVELS
WITH FY '83 ADMINISTRATION BUDGET
(in billions - some figures are rounded)

	FY '82 Budget Reconciliation Level	FY '83 Administration Proposed Level*	Percent Cut	Dollars Cut
FY '83	$2.45	$1.974	20%	$.476
FY '84	2.5	1.974	21%	.526
FY '85	2.6	1.974	24%	.626

* Assumes Administration would continue to fund at FY '83 level. However, Administration is likely to propose futher cuts in the future.

NOTE: ADMINISTRATION PROPOSES THAT TITLE IV-C WORK INCENTIVE PROGRAMS (WIN) OR WIN DEMONSTRATION PROGRAMS MAY BE PROVIDED FOR UNDER TITLE XX PROGRAM ALTHOUGH NO ADDITIONAL REVENUES WOULD BE PROVIDED. WIN PROGRAM FUNDED AT $365 MILLION IN FY '81 AND $265 MILLION IN FY '82; FY '83 BUDGET REQUEST IS ZERO.

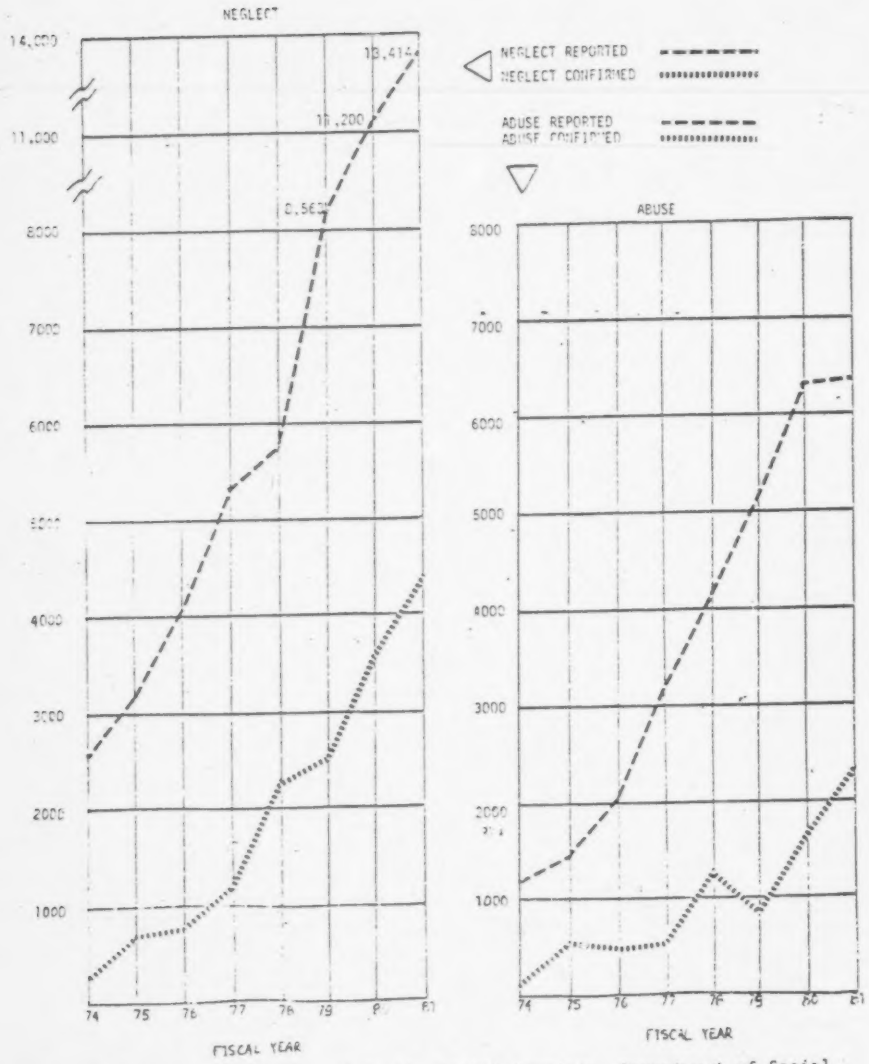
CUMULATIVE LOSS OF TITLE XX FUNDING SINCE AUGUST 1981
(in billions)

	FY '81 Statutory Ceilings	FY '82 Statutory Ceilings	FY '83 Administration Budget	Total Percent Cut	Total Dollars Cut
FY '83	$3.199	$2.45	$1.974	38%	$1.225
FY '84	3.299	2.5	1.974	40%	1.325
FY '85	3.399	2.6	1.974	42%	1.425

* Does not include funding loss due to zero budget for WIN programs in FY '83 and thereafter (WIN funded at $365 million in FY '81, $256 million in FY '82).

APPENDIX IV

CHILD ABUSE/NEGLECT REPORTED AND CONFIRMED
FROM 1974-1981 BY FISCAL YEAR



Source: Services to Children and Youth, Social Services, Department of Social and Rehabilitative Services, Annual Report, 7/1/80 through 6/30/81, submitted November 1981.

VIII. Michigan Economic Overview

A. Michigan's economy is tied directly to the fortunes of the automobile industry. It is directly affected by the decreased level of economic activity in general, and the increased competition from imports. Chart 9 reviews the last year in detail for total U.S. production compared to Michigan's.

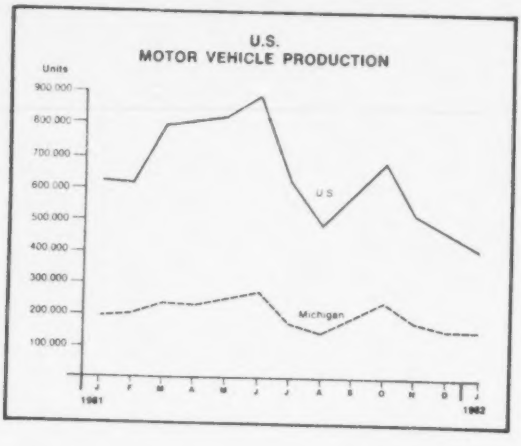


Chart 9

B. Chart 10 shows the relationship between high interest rates and domestic car sales. Note that most of the short, sharp increases shown in monthly auto sales rates since 1979 are directly linked to rebate programs.

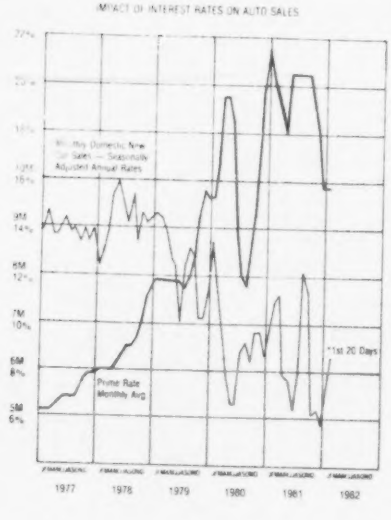


Chart 10

UNEMPLOYMENT IN MICHIGAN IS NOW OVER 17%. THIS REPRESENTS 725,000 WORKERS. OUR STATE UNEMPLOYMENT DEBT IS 1.5 BILLION AND IS EXPECTED TO REACH 2 BILLION NEXT MONTH.

MICHIGAN IS IN ITS THIRD YEAR OF DOUBLE DIGIT UNEMPLOYMENT.

MOTOR WHEEL , ONE OF LANSING'S LARGER PLANTS IS AT 63%. SOME OF THESE WORKERS HAVE BEEN OFF OVER TWO YEARS.

OUR DROP FORGE PLANTS ARE ALL UNDER MASSIVE UNEMPLOYMENT AND THREATS OF BEING CLOSED. IN MOST PLANTS, IT NOW TAKES FIVE YEARS SENIORITY TO HELD A JOB.

AT OLDSMOBILE, WHICH I REPRESENT AS PRESIDENT OF THE LOCAL UNION, WE ARE DOWN FROM 15,000 TO 12,500.

IN THE BUILDING TRADES WE ARE EXPERIENCING 50% UNEMPLOYMENT IN MICHIGAN: ALSO 27% NATIONALY.

FLINT, A CITY 50 MILES FROM LANSING, IS AT 24% UNEMPLOYMENT. A LARGE CHEVROLET PLANT IS DOWN FROM 18,000 TO 10,000 EMPLOYEES.

DUE TO THIS MASSIVE UNEMPLOYMENT THE STATE OF MICHIGAN IS ON THE VERGE OF BANKRUPTCY. WE NOT ONLY HAVE TO HELP THOSE WHO ARE OUT OF WORK, BUT THERE IS NO TAXES BEING RETURNED TO THE STATE OR FEDERAL GOVERNMENT.

C. Chart 11 offers a demonstration of Michigan's hypersensitivity to economic fluctuations. These changes in real (inflation-adjusted) personal income are a good indication of the economic well-being of the people in this state. Note that personal income in Michigan in 1981 was slightly below 1972. Note also the length and greater relative severity of the current decline versus 1975. From peak to trough, there was an 8.5-percent drop in real per-capita Michigan personal income from 1973-75. Since 1978 we've seen a 10.3-percent drop.

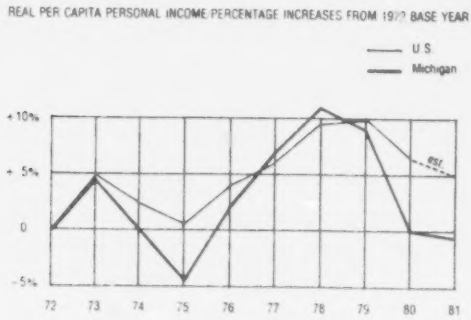


Chart 11

IX. Current Situation in Review

(See following page for timeline - Chart 12.)

As the timeline shows, despite hundreds of millions of budget cuts over the last few years, and $270 million already this fiscal year, we still face a massive budget deficit. That problem has been identified to date as totaling $567 million. It could easily increase.

In addition, the Fiscal 1983 budget, for the budget year starting October 1, 1982, already must be reduced by $200-$245 million due to revenue estimate revisions and increased DSS case-load expectations. It will be further affected by $425-$450 million of federal budget cuts that will require state program reductions.

X. Governor's March Proposal for Solving Fiscal 1982 Crisis

A. Further budget cuts of $450 million.

B. An income tax increase of 0.7 percent, from 4.6 percent to 5.3 percent. Current estimates are that this combination of cuts and increased revenue will produce a slight cushion of $50-$60 million in the event of further declines in revenues, and $25-$30 million to begin improving our cash flow.

C. An increase in the commercial weight tax of 85 percent, coupled with earmarking a portion of the income tax after January 1 was to address transportation funding problems.

MEMORANDUM

HOUSE FISCAL AGENCY

DATE March 12, 1982

TO Representative David Hollister

FROM Warren Gregory

RE The Impact of the Federal Budget Reductions on Michigan Compared With Other States

OVERVIEW

Federal spending has for a good many years placed Michigan at a relative disadvantage to other states, especially those in the Southern and Western regions of the country. Congressional adoption of the President's fiscal 1983 budget recommendations would not only fail to begin remedying this situation but, in a number of important areas, tend to worsen it.

The major problem facing the Administration during budget deliberations is the threat of expanding deficits into the foreseeable future. As a result of the tax cuts contained in the Economic Recovery Tax Act of 1981, federal revenues growth will be much lower than that experienced over the past decade. Budget outlays meanwhile are forecast to continue growing at a faster rate than revenues. This outlook is portrayed in Table 1 below. Sharp increases in the deficit are forecast by the Congressional Budget Office and the Administration if no additional spending cuts or revenue increases are adopted.

TABLE 1
THE BUDGET OUTLOOK UNDER CURRENT POLICIES
(In Billions of Dollars)

Fiscal Year	Congressional Budget Office			Administration*		
	Revenues	Outlays	Deficit	Revenues	Outlays	Deficit
1981 (Actual)	$602	$660	$ (58)	$599	$657	$ (58)
1982	631	740	(109)	626	728	(101)
1983	652	809	(157)	653	799	(146)
1984	701	889	(188)	704	869	(165)
1985	763	971	(208)	778	946	(168)

*The President's 1983 budget has reclassified certain social insurance contributions as offsetting collections to spending, thereby reducing both revenues and outlays but leaving unchanged the deficit.

The budget deficit under current services assumptions as projected by CBO to almost double between 1982 and 1985, from $109 billion to $208 billion. The Administration's deficit forecasts also show a sharp rise during the period, although not as great as CBO's because of more optimistic economic assumptions.

The Administration's efforts to reduce the size of the deficit are primarily concentrated on proposals to reduce spending rather than to raise revenues. Table 2 summarizes the Administration's plan to reduce the deficit over the next three years.

TABLE 2
THE ADMINISTRATION'S DEFICIT REDUCTION PROPOSALS
(Billions of Dollars)

	1985	1984	1985	3-Year Change Total	3-Year Change Percent
Revenues:					
Tax Revisions	$ 7.2	$13.5	$13.5	$34.1	14.3%
Increased User Fees	1.3	1.4	1.6	4.3	1.8
Improved Tax Collection and Enforcement	5.5	5.5	4.2	15.2	6.
Entitlement Reform	(1.2)	(1.0)	(1.2)	(3.4)	(1.3)
Subtotal:	$12.8	$19.4	$18.1	$50.3	21.1
Outlays:					
Entitlement Savings	$12.6	$18.1	$23.0	$53.7	22.5%
Management Initiations	16.7	16.5	19.2	52.5	22.0
Increases in User Fees	1.4	2.1	2.5	6.0	2.5
Reductions in Discretionary and Other Programs	14.2	26.1	33.2	73.6	31.0
Subtotal:	$43.9	$64.7	$80.5	$188.1	78.7%
TOTAL REDUCTIONS:	$55.9	$84.1	$99.3	$239.3	100.0%

As shown by the Table, only 21.1% of the deficit reduction proposals are in the form of increased revenues -- hence, almost 80% of the deficit reductions would be reduced spending. The biggest share of the outlay reductions -- 46.1% -- would be from holding down increases or cutting discretionary nondefense programs. Approximately 29% of the outlay reductions would be achieved through revisions to entitlement programs, primarily Medicare, Medicaid, Food Stamps, and Aid to Families with Dependent Children. Since no revisions are currently proposed for social security, some relatively sharp increases are forecast for this program.

Several additional elements of the President's budget proposals should be pointed up:

- The budget proposals remain committed to an accelerated level of defense spending, with a 20.2% nominal - and 14.0% real - increase recommended for Department of Defense authorizations.

- Since there are no major changes recommended for the Social Security program, increases in the retired population and the indexing of benefits to inflation will mean sharply increased costs to the program.

- Because of high deficits and high interest rates, interest on the federal debt will expand fairly sharply.

The above-listed items, combined with the Administration's minimal tax increase position, means essentially that all remaining programs - entitlements and state and local grants - must be "squeezed" in order to achieve the Administration's budget deficit reduction goals. It also means that if the Administration does not alter its no tax increase - accelerated defense spending position - any further increases in the deficit would mean additional cuts in these programs.

With respect to the impact on Michigan, there is little doubt that if the Administration proposals were adopted they would impact more adversely on this state than any other. As a backdrop to this observation, it should be noted:

- Michigan is in a depression and has seen its economic climate deteriorate steadily and continuously since mid - 1979.

- Michigan has the nation's highest rate of unemployment as it has had virtually for the past three-years. The state's current unemployment rate is 14.6% with a total of 617,000 Michigan residents without jobs. In comparison, the national unemployment rate is 8.8% -- or nearly 40% below that of Michigan. Michigan has suffered 26 months of consecutive double digit unemployment.

- Michigan currently has the highest welfare burden of any of the states, with nearly 12% of its citizens requiring some form of cash assistance to survive the current economic period. The fastest growing segement of the Michigan welfare population is the AFDC-unemployed parent program, which, consists primarily of intact families where the father has exhausted unemployment benefits.

- Since 1979, the state has been forced by declining revenues and sharply increasing welfare requirements to cuts totaling well over $1 billion from its spending base. Furthermore, since the start of this current fiscal year, the state's fiscal situation has deteriorated by over $1 billion -- or nearly 22% of its appropriation base. Even after a $270 cutback in state spending, the state must still find a way of closing off a projected $515 million year-end deficit.

Thus, it is clear that any federal funding reductions would have far-reaching effects on Michigan's depression-racked fiscal situation.

HISTORIC FUNDING DISPARITIES

Historically, Michigan has received from Washington far less than what many consider to be its "fair" share of federal spending relative to other states. Table 3 below depicts quite clearly the fact that Michigan has received less in federal spending than its citizens have sent to Washington in tax dollars. Compared with other states during the fiscal year period 1975-80, Michigan has ranked either last or next to last and in only one-year (FY 1977) has it received as much as .70 cents back for each dollar sent to Washington in taxes.

TABLE 3
STATE OF MICHIGAN'S FEDERAL
BALANCE OF PAYMENTS: FISCAL 1975-79

Fiscal Year	Spending/Tax Ratio	State Rank
1975	.65 cents	51
1976	.64	50
1977	.71	50
1978	.66	51
1979	.66	51
1980	.68	51

There are a number of factors that account for this shifty disparity, not the least of which include:

- Matching Formulas - In determining state allotments of federal funds for different programs, elaborate matching formulas have been developed. These formulas have tended to rely heavily on such factors as population and per capita income and give little, if any weight to such factors as unemployment, tax effort, cost differentials, or relative welfare burden. As a result, Michigan receives only the minimum matching percentages for such major programs as Medicaid and Aid to Families with Dependent Children. For example, one recent study showed that Michigan income ranking among the states would move from 12th to 21st if such factors as cost-of-living, taxes and transfer payments are counted. To give an example of the impact of these formulas, Michigan currently has an approximate 50% federal match for AFDC and Medicaid. The sunbelt states currently receive an approximate 60% federal match for those programs. If Michigan had an equivalent match it would realize an additional $244 million federal dollars in Medicaid alone.

- Defense Spending - There is a huge imbalance in defense spending which heavily favors the Southern and Western states. For example, Michigan has approximately 4.2 percent of the total U.S. population but only 1.1 percent of the nation's principal military installations and less than 1 percent of proposed military construction contracts. In total, Michigan receives only 1 cent of every defense dollar spent but pays taxes to support over 4 cents of every dollar spent. Although Congress moved recently to permit greater targeting to states with relatively high unemployment, the current disparities will improve only marginally. In fact, given the President's proposals to accelerate defense spending relative to other programs, these disparities would likely increase.

In summary, federal spending patterns and allocation formulas to the states have worked against Michigan to the point that it has consistently ranked last or next to last among the states with respect to balance of payments. Unfortunately, very little has been done to reverse this trend and, in fact, several of the administration's proposals for 1983 would exacerbate it.

KEY ADMINISTRATION PROPOSALS

For FY 1982, several adopted program reductions impacted Michigan severely. The reductions which were especially acute were:

- CETA and Extended Unemployment Benefits - As was indicated earlier, Michigan has the highest rate of unemployment in the nation and one of the nation's lowest rates of non-agricultural employment growth. Largely because of this, Michigan has relied more heavily on the public service portions of the CETA program and on extended unemployment benefits for Michigan workers who exhausted regular benefits than any other state. The FY 1982 budget approved a phase-out of the public service components of CETA (Titles II and VI) and altered the calculation of economic distress under the extended benefits program to the point that the program terminated in November 1981 (the program resumed March 6, 1982). The results of these actions were felt strongly in Michigan. For example, Title II and VI of CETA provided nearly $180 million in income for nearly 28,000 CETA public service job recipients in 1981. With respect to extended benefits, some 34,000 claimants lost all income protection when the program terminated. For many of these Michigan residents, their only recourse was to seek welfare assistance. In light of the fact that Michigan's welfare burden is already the nation's highest, these federal actions served only to further increase that burden.

- Trade Readjustment Act Benefits - This program was created in 1962 under the principle that the federal government bears a responsibility to workers losing employment because of import competition. As shown by the table below, Michigan has by far relied more heavily on this program than any other state.

10 STATES WITH THE LARGEST
NUMBER OF WORKERS RECEIVING TRA
APRIL 1975 - DECEMBER 1980

STATE	NUMBER OF WORKERS
Michigan	195,200
Ohio	107,400
Pennsylvania	90,200
New York	69,400
Missouri	44,100
New Jersey	42,700
Wisconsin	36,300
California	35,700
Indiana	31,500
Massachusetts	27,300

Since 1979, $1.173 billion has been paid to over 309,000 Michigan workers whose jobs have been adversely affected by foreign competition. The Omnibus Budget Reconciliation Act of 1981, however, virtually eliminated the TRA program. For example, last summer the number of TRA recipients in Michigan averaged about 40,000, while disbursements averaged about $24 million per month. By December, only about 4,000 individuals continued receiving benefits, which by then dwindled to about $2.5 million a month. Thus, only a skeleton of the TRA program remains.

For 1983, many of the Administration's proposals would create at least as much havoc on the state of Michigan as did the FY 1982 cuts. Underlying many of the Administration proposals appears to be a philosophy that the states can, if they choose, pick up at least a portion of the reduced federal dollar. Given Michigan's current economic and fiscal morass, however, that is not an option which is available to this state. Hence, without a better targeting of federal funds, any federal reductions in Michigan will be real and will be felt fully.

Some of the reductions which appear to impact Michigan more severely include:

- Welfare Funding Shift Proposals - In a number of human services programs, the Administration is not actually recommending cuts, but rather, is recommending a shift in federal funding responsibility to the states. Several key examples are the proposals to reduce the federal match on optional services, place a cap on federal welfare administration funding at 95% of FY 1982 costs, penalize states whose welfare overpayments or payments to ineligibles exceeds 3% of expenditures and reduce funding for child support enforcement activities. Several items should be noted. First, given the welfare burden, such reductions in federal funding almost by definition would be more heavily felt here. Second, given Michigan's severely strained fiscal condition, the state will not have the option of picking up these added cost burdens. Rather, the state would be forced to seek hard program cuts to make up for the losses.

Low-Income Energy Assistance - The Administration recommends consolidating the emergency assistance program with the energy assistance program and then reducing federal funding by 32.5%, or $35.3 million, from FY 1982. Given the number of low-income families in this state and the fact that Michigan lies at the heart of the frostbelt, this would represent a very severe reduction. Further, it would increase demands for fuel emergency assistance considerably, thereby further burdening Michigan's welfare system.

Employment and Training - The Administration proposes to phase-out all CETA programs with the exception of the job corps (Title IVB) and special targeted programs (Title III) by the end of fiscal 1983. The new employment and training proposal would be funded at $2.4 billion in budget authority, or 22.5% less than in FY 1982. In Michigan, reduced federal funding is estimated at $171.1 million currently. These proposed budget authority reductions will impact very heavily in Michigan -- especially in light of the fact that it receives the second highest allotment (after New York) of current employment and training funds. These reductions are even more unfortunate when one examines Michigan's employment situation and the large number of workers who have been displaced due to plant closures or cutbacks. To reduce such funding at this particular time places an undue burden on this state to upgrade the skills of its workforce.

Economic Development Administration - The Administration proposes to eliminate funding for all Economic Development Administration (EDA) in FY 1983. In FY 1982, EDA programs received a 60% cut. In FY 1980, EDA investments in Michigan totaled nearly $26 million and generated an additional $65 million in private investment. It is estimated that these funds generated or protected over 6,800 Michigan jobs that year. Undoubtely, the EDA represents one of the federal government's most important strategies for reversing economic decline in distressed areas through the private sector. Termination of such a program, therefore, again places the burden on Michigan to deal with its economic crisis.

Supplemental Security Income - The Administration proposes a number of changes designed to reduce eligibility for this federally funded and administered program (Michigan makes monthly supplementary payments through the federal government for program recipients). The strategy for reducing eligibility would save the federal government a considerable amount ($68.4 million estimated for FY 1983 in Michigan). Overlooked, however, is that many of these recipients will have no alternative but to seek assistance under the state's General Assistance program - which is 100% funded with state dollars. The net estimated increased cost to the state in FY 1983 under these proposals is approximately $42 million.

Higher Education - The Administration proposes a number of changes designed to reduce grants and loans to students in higher education. Although the biggest dollar impacts won't be felt until FY 1984, the program and funding must be decided this year. The net effect of the Administration's proposals would be to deny grants to approximately 28,000 students and low interest loans to another 37,000 students. In light of Michigan's extensive system of higher education, these reductions have potentially extremely serious effects both to Michigan students and their families and to the colleges and universities -- Also, considering that state aid cuts to higher education over the past several years have forced tuition levels up to the point where they are near the top in the nation (Michigan ranks 37th in terms of state aid per $1,000 personal income versus 12th in the nation several years ago), further cuts may push several of our institutions to the breaking point.

While additional areas may be identified as we examine the Administration budget further, these currently appear to be the most significant in terms of disproportionate federal reductions. In summary, it should be emphasized again that:

- Michigan ranks last among the states in terms of federal spending versus taxes sent to Washington. The recommended federal budget reductions do little to halt this trend and - in fact - appear to worsen it.

- The recommended acceleration in defense spending is certain to exacerbate the current tax/spending ratio disparity, and also serves to "squeeze" out funding for many programs Michigan relies heavily on.

- Many of the recommended federal "cuts" are not cuts at all -- but a shift of federal funding responsibility to the states. States, of course, would have the option to assume at least a portion of the federal shift but -- given Michigan's economic and fiscal malaise -- it is not an option available to this state. Hence, any federal funding reductions would be felt immediately and fully.

- Many of the recommended federal cuts will tend to increase demands and costs in certain state programs. Again, given Michigan's current predicament, cuts will have to be made in these programs.

- The state will be in the unfortunate position of being squeezed from two sides - federal cuts in local aid and grants to individuals will mean even greater pressure in the state to cover such losses at a time when the state is unable to cover its current cost obligations.

- Total federal funding losses to Michigan over the two-year period would total over $3.2 billion, as follows:

	(Billions)
Year 1 cuts	$1,116.0
Year 2 cuts continued in FY 1983*	1,250.0
New Reductions for FY 1983	845.0
TOTAL REDUCTIONS:	$3,211.0

*Adjusted for inflation and utilization.

Mr. STARK. Thank you. My colleague, Mr. Rousselot, has to leave.

Mr. ROUSSELOT. I regret that I cannot stay for this fine panel, but I had made a commitment a whole week ago before I knew we were going to be in this time frame. I wish to say again to this fine panel of what I consider our grassroots experts that we intend to see that Public Law 96-272 is carried out. I know that this committee, both subcommittee and full committee, is very committed to that position and we will follow through to see whatever programs of Federalism or block granting and so forth are intended, that they not interfere with that law that we passed in 1980 and that we are going to follow through to make sure that it is appropriately implemented.

I think that commitment is very strong, not only in the House, but I think in the Senate.

I wish to say too that our colleague, George Miller, though he is not on this committee, is very much here in spirit, as you well know, and is continuing his vigilance also on the Labor and Education Committee and other places to make sure that fine law that was put on the books in 1980 is not improperly interfered with.

I have had extensive discussions with our Secretary of Health and Human Services, Secretary Schweiker, when he was in the Senate. As you full well know, he voted for it and we have as recently as yesterday had a discussion on the subject and he intends to respond to several of the questions I know you have raised about implementation of this law, and so forth.

We should have a good response to that very soon.

I know our chairman here has been very supportive of this effort. I normally am not for creation of bureaucracies, but I did support George Miller in his effort to set up a joint committee, or a select committee on children. I am sure my record is clear on that, that I am not much for creation of unnecessary committees, but I think the time is appropriate for oversight in all of these vast number of programs we have that relate to children.

Thank you each for being here. Your testimony is well stated. You have got a lot of good facts and figures to help us in our efforts to implement the 1980 law.

Mr. Chairman, I just hate to have you here all by yourself. Maybe I can dig up some other members on the way out or something. Thank you all for being here.

Ms. ALLEN. Thank you.

Mr. STARK. The panel will proceed to Marylee Allen?

Mr. ROUSSELOT. I have several questions for each of these panelists. I will submit these in writing to them.

Mr. STARK. I am sure the panelists will be good enough to respond and their answers will be made part of the record.

Ms. Marylee Allen is director of child welfare of the children's defense Fund.

We have, I believe, a copy of your statement and without objection, it will be in the record in its entirety and you may paraphrase it, outline it, or proceed in any manner you are comfortable with.

STATEMENT OF MARYLEE ALLEN, DIRECTOR OF CHILD WELFARE, CHILDREN'S DEFENSE FUND

Ms. ALLEN. Thank you. I appreciate the opportunity to testify today on several proposals affecting poor children and families in the President's fiscal year 1983 budget.

It is our strong view as a Children's Defense Fund, based upon the unfair impact of the fiscal year 1982 budget and the faulty premises underlying the fiscal year 1983 budget, that not another dime should be taken from programs for poor, handicapped, and homeless children or their families.

A group of critical children's programs were already cut by $10 billion in fiscal year 1982. Yet President Reagan is proposing to cut these same programs an additional $8 billion for fiscal year 1983.

In our view the budget battle this year is a battle for a fair and decent America. It is a battle about whether we will continue to invest in the young, in families, in the needy, and in working men and women, or whether we will invest in the rich and in more and more arms.

It is, in fact, a battle about whether we invest in human capital, our children, or whether we choose short-term profit and quick political fixes.

This year, as in the past, we look to members of this subcommittee for leadership on behalf of the poor, handicapped and homeless. Today there are three major points I would like to emphasize briefly about the important family support programs in your jurisdiction.

First, the means tested entitlement programs, AFDC as well as medicaid and food stamps, are the key programs on which children depend for survival. Yet in fiscal year 1982 $3.9 billion was taken from these three programs and for fiscal year 1983 an additional $5 billion in cuts is proposed.

Children, who comprise the majority of the recipients of these entitlement programs, cannot afford one cent more. The 7.6 million AFDC recipients who are children are desperately needy and have already been severaly hurt by the program's failure to keep up with inflation.

As we demonstrate in our testimony with specific examples from a number of the States represented on the subcommittee, the fiscal year 1982 in AFDC changes have devastated children and parents trying to work their way out of poverty.

This year's proposed changes would cut deeper into the working poor. They would reduce State flexibility in administering work requirements. They would hit hardest at the poorest of the poor, removing any last vestiges of the administration's safety net.

The second major point I would like to emphasize is that the policy and budget decisions on AFDC and the other important family support programs in your jurisdiction are interrelated. They create a variety of significant ripple effects for family and children.

As Mr. Gradison recognized in H.R. 5226, a decision to cut a family off of AFDC is in 20 States a decision to foreclose that family's access to health care by eliminating their medicaid eligiblity.

Further, the combined impact of the AFDC changes with the cuts in the social services block grant have deprived families struggling to support their children of necessary child care.

Perhaps most troubling, however, is the fact that families who lose these crucial family supports and families who are victims of high unemployment rates are likely to be forced to turn to the child welfare system for help. Ironically, just as Public Law 96-272 is again proposed for repeal, it has never been more needed. Unless the thrust of this important law, for which the subcommittee has advocated throughout the years, can continue efforts to keep families together will cease and foster care may be the very last resort for some of the children victimized by the budget cuts. We are already hearing reports from parts of Texas that families are requesting temporary foster care for their children at a rate twice that of last year. Such a price to have to pay. If Public Law 96-272 is not maintained, the truly needy will continue to be hurt.

My third and final point today is that there were choices last year; there are also choices again this year. Therefore, we ask you to reject the fiscal year 1983 budget proposals for the AFDC program, the social services block grant and the child welfare programs, and to push for the restorations in AFDC and the social services block grant that are included in H.R. 5791.

This subcommittee's sustained concern about the future and effectiveness of these programs offers hope to the hundreds of thousands of children and their families who have been victimized by budget battles.

We look forward to working together with you on their behalf. Thank you.

[The prepared statement follows:]

Statement of The Children's Defense Fund, Presented by MaryLee Allen, Director, Child Welfare Children's Defense Fund

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify today for the Children's Defense Fund (CDF) on several of the proposals for programs affecting poor and homeless children and their families in the President's FY 1983 Budget.

CDF is a national public charity created to provide systematic and thoughtful advocacy on a range of issues affecting children and families. Over the years, CDF has produced several major reports on problems in our nation's child welfare, health, and education systems that particularly affect poor children. In each instance, we have not only documented the problems, but have sought to develop a careful and responsible agenda for reform that would help redirect public policies and public funds in a more effective fashion.

As a context for my comments today, let me begin by stating that in our view the budget battle this year is a battle for a fair and decent America. It is a battle about whether we will continue to invest federal dollars in the young, in families, in the needy, and in working men and women or whether we will invest in the rich and in more and more arms, which leads us down the path of economic and moral bankruptcy. It is a battle about whether we invest in human capital--or whether we choose short-term profit and easy political fixes. It is a battle about who and what we Americans are as a people and as a nation.

It is our strong view as a Children's Defense Fund, based upon the unfair impact of the FY 1982 Budget and the faulty premises undergirding the FY 1983 Budget, that not another dime should be taken from programs for poor, handicapped, and homeless children or their families.

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CDF has recently published A Children's Defense Budget: An Analysis of the President's Budget and Children. In it we have tried to assess the impact of the budget cuts and program changes made last year on children and families; and to provide a realistic assessment of what the new Administration's proposals would do to the most vulnerable groups--children, the poor, minorities, and the handicapped--in our society.

We found that a group of critical children's programs were cut by $10 billion in FY 1982. President Reagan is proposing to cut an additional $8 billion in FY 1983. The proposed FY 1983 cuts include a one-third cut in Title I, the education program for disadvantaged children; a one-fifth cut in child welfare services for homeless children; a one-fourth cut in job corps and youth employment programs; and a cut of almost $5 billion in AFDC, Food Stamps, and Medicaid. If we look at a broader range of programs that affect poor, handicapped, and homeless children and their families, including housing and employment, proposed reductions total a massive $27 billion in FY 1983 alone. This includes $22 billion in new FY 1983 cuts and a proposed $5 billion in rescissions from enacted FY 1982 budget levels.

The President's proposals for additional cuts in crucial family support programs come at a time when all the signals our economy is sending tell us this is the time to invest rather than turn our backs on children. Spending billions more on weapons of death at the expense of tools of life for children and families is not the road to peace, stability, growth, and productivity, either within or without. The policies proposed will cost

billions in future remediation (medical costs, foster and institutional care, court costs, jails); in services (welfare dependency, social services); and in lost productivity (joblessness, untrained minds, and unhealthy bodies). And they will cost us more than we can measure as we stray from our historical path of becoming a decent and disciplined society.

I would like to use my time today to address specifically the budget proposals for several key family support programs under the jurisdiction of your Subcommittee -- the Aid to Families With Dependent Children Program (AFDC), the Child Welfare, Foster Care, and Adoption Assistance Programs addressed by the Adoption Assistance and Child Welfare Act of 1980, P.L. 96-272, and the Social Services Block Grant. This Subcommittee has been extremely supportive of the programs for needy families and children and we urge your continued commitment to them.

Before addressing the specific programs, I would like to emphasize three general points about the programs:

1. The key programs on which children depend for survival--AFDC, Medicaid, and Food Stamps -- were cut to the bone last year. $3.9 billion was taken out of these three means tested entitlement programs alone, yet another $5 billion is proposed for FY 1983. The children served by these programs cannot afford another cent more. Children comprise half of the 22 million Food Stamp recipients and nearly half of those on Medicaid. Sixty eight percent of all AFDC recipients are children. They have already paid their price.

2. Policy and budget decisions on AFDC and other family support services in your jurisdiction are inter-related and create a variety of significant ripple effects for families and children. As Mr. Gradison has recognized in H.R. 5226, a decision to cut a family off of AFDC is in 20 states a decision to foreclose

a sick child's access to health care through Medicaid. Similarly, the combined impact of cutbacks in AFDC and in child care formerly funded under Title XX have created disincentives to work for parents who are struggling to support their families. Families without these crucial family supports will be forced to turn to the child welfare system, and possibly foster care, as a last resort.

3. There were choices last year and they are there again this year. Congress must be forced to make them. In rejecting the Administration's budget proposals for the AFDC, Title XX, and child welfare programs last year, this Subcommittee rejected the Administration's suggestion that the only sector of the budget that can be cut is social programs for among the most vulnerable members of our society. We ask you to again reject the FY 1983 Budget proposals for these three areas, and to push ahead with consideration of restorations for AFDC and the Social Services Block Grant included in H.R. 5791.

I urge you to keep these points in mind as you consider our specific comments on the effects of the Fiscal Year 1982 cuts and programmatic changes and the Fiscal Year 1983 proposals on AFDC, Child Welfare, Foster Care and Adoption Assistance, and Social Services.

AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)

I would like to emphasize briefly three points concerning the impact of already enacted and proposed cuts in the AFDC Program on the children and working families depending on this program for basic survival.

First: AFDC children are desperately needy and have already been severely hurt by the AFDC program's failure to keep up with inflation.

Aid to Families With Dependent Children (AFDC) is the only program explicitly aimed at protecting poor children by giving their families basic income support. As mentioned earlier, sixty-eight percent or 7.6 million AFDC recipients are children. Half are eight years old or younger. The remaining 3.5 million are primarily sole parents living with children in single parent families. One out of every eight children is depending on AFDC for survival right now. One out of four will depend on AFDC at some point in his or her life.

In most states AFDC benefits are intolerably low, failing to provide even a minimum level of decency. Twenty-two states provide maximum benefits of less than $285 a month, (less than 50 percent of the poverty line), to a mother and two children with no other income. In Mississippi, the average payment for a child is $.99 a day or $30 a month; in Texas it is $1.19 per day or $36 a month. The nationwide high is $4.21 per child per day. States set these benefit levels. By contrast, the average monthly payment for a disabled child under the SSI program, where federal law sets benefit levels, is $7.35 per day or $229 per month.

According to a recent report by the Center on Social Welfare Policy and Law, even when minimal AFDC benefits are combined with Food Stamp benefits the levels in all states but Alaska fall short of even the meager poverty level, and in over half the states they are less than 76 percent of the poverty level. Only six states provide AFDC benefits that bring the combined AFDC/Food Stamp benefit level to 90 percent or more of the poverty level.

The harm to individual children is intensified by the fact that AFDC recipients get no automatic cost of living increases, and state AFDC payments have generally not kept pace with inflation. Between 1975 and 1981, according to the same study by the Center on Social Welfare Policy and Law, the gap between benefits and the poverty level has grown significantly wider because benefit levels have almost uniformly failed to keep pace with cost of living increases. During this period the official poverty level increased by approximately 67 percent while the Consumer Price Index rose 73.4 percent. AFDC benefit levels in thirty-three states increased by less than 40 percent, and in 13 of these states benefit levels increased by less than 10 percent. In fact, in two states, Arkansas and Oregon, benefit levels decreased below 1975 levels.

Examples from individual states highlight disparities between increases in benefit levels and increases in the poverty level:

- AFDC benefit levels for a family of three with no other income increased less than 5 percent in eight states, Arkansas, Idaho, Kentucky, North Carolina, Oregon, Texas, Virginia, and West Virginia, between 1975 and 1981.

- In the state of Texas, the current benefit level of $118 a month has only increased $2.00 or 1.72 percent since 1975. Even when Food Stamps are added the combined benefit level is only 51 percent of the federal poverty level.

Second: The FY 1982 changes in the AFDC Program devastated children and parents trying to work their way out of poverty.

Federal funds for the $8 billion AFDC Program were slashed by slightly over $1 billion in FY 1982. Combined with state matching funds, this resulted in a reduction of almost $2 billion in money available for income supports to poor children and their families. Despite earlier action to the contrary by this Subcommittee, Congress adopted virtually all of the Administration's proposals for changes in AFDC, although some were made optional for states instead of mandatory. The changes adopted include a number that jeopardize children and penalize the working poor -- the very people the Administration announced it wanted to help.

The Department of Health and Human Services itself estimated that at least 660,000 families, including over 1 million children, were expected to lose AFDC or to receive reduced benefits as a result of the cuts. In about half the states, over one out of every five AFDC families was expected to be hurt by the changes.

Individual states are just now beginning to document the impact of the implementation of specific changes in the AFDC Program on children and families in their states and counties, but preliminary data are discouraging. Consider for example data from two states where CDF has field offices:

In Ohio a case-by-case review of the state's 210,819 Aid to Dependent Children (ADC) cases, has revealed that 71,238 individuals, two-thirds of them children, have been directly affected by the Reconciliation actions. Over 14,000

families have been removed from the rolls, and almost 3,000 families seeking to establish ADC eligibility have had benefits denied. In Ohio, as in 19 other states, these 17,000 families, including 35,000 children, will also lose eligibility for Medicaid. It is worthy of further note that in Ohio, a state burdened with overwhelming unemployment problems, over 25 percent of the terminations and reductions were attributable to those changes, such as the 150 percent limitation on income, most likely to affect working families.

In Mississippi, since October 1, 1981, 9,000 of the state's 12,000 AFDC mothers who were working at least part time have been cut from the AFDC rolls, and their 20,000 children have lost eligibility for Medicaid. Consider too that in a state like Mississippi, a mother with two children who works more than 23 hours a week at the minimum wage would lose her AFDC benefits because of the 150 percent cap. In fact in many states, an income equal to 150 percent of the standard of need would still be well below the poverty line.

Such examples certainly challenge the Administration's contention that families affected by last year's cuts were, for the most part,making over $15,000 a year. In fact, only about one-half of one percent of working mothers earned as much as $12,000 in 1979; and that same year more than two-thirds of such mothers earned under $6,000. Consider as typical, for example, the case of Mrs. S. an East Texas mother of three, whom I suspect resembles many of the clients you heard from during your field hearings earlier this year:

Mrs. S. has three children and lives in East Texas. She has a part-time job from which she earns about $250 a month. Because her earnings are greater than 150 percent of the standard of need in Texas for an AFDC family of four, she recently lost her $25 a month AFDC check and Medicaid card. One of her children, Jamie, is 10. He has severe respiratory problems and needs to see a doctor for treatment and medications at least once a month. Jamie was hospitalized last year for his condition. Now that his mother has lost her Medicaid, no health care is available for Jamie in Cherokee County. Her choices: travel 180 miles to

the University Hospital at Galveston; travel 100 miles to Dallas and lie to the hospital about her true county of residence; or give up her job and get her AFDC and Medicaid card back. She refuses to give up her job, at least for now. If Jamie becomes seriously ill, however, she does not know what her choices will be.

Data from other states and counties further document the harms inflicted on many of the over 7 million children and their families served by the AFDC program.

- In the state of Texas an estimated drop in the AFDC caseload of approximately 34,000 recipients,all of whom lost Medicaid eligibility,was attributed almost totally to the Reconciliation Act changes. In Lubbock, Texas, for example, only 55 households with earned income were on the rolls in February 1982, as contrasted with 115 households in August 1981.

- Over 33,000 persons in Tennessee were terminated from the AFDC rolls during October 1981 through January 1982. In Shelby County, 2,806 families, including 8,975 persons, two-thirds of them children, were terminated during this period, over half of them because of the limit on gross income to 150 percent of the state's standard of need.

- The state of California estimated that 42,500 families, including approximately 80,000 children, would be terminated between November 1981 and June 1982 as a result of the Reconciliation Act changes in AFDC. Approximately half of the terminations (affecting 21,200 families) were expected to result from the imposition of the 150 percent cap. An additional 9,300 families were to be terminated (and an additional 34,580 to receive reduced benefits) as a result of changes in the earned income disregards.

- Arkansas's original estimates that 4,000 families would be terminated as a result of the Reconciliation Act changes and the state's reduction in its payment standard, fell short. 5,700 families, including over 10,000 children, were actually terminated.

Certainly the harms inflicted on families and children in the states just described will be lessened by the provisions included in Chairman Ford's bill, H.R. 5791, which would eliminate the 150 percent cap on eligibility and the four month limitation on the earned income disregard enacted last year, and make other improvements in the earnings disregards as well.

Third: This year's proposed changes in the AFDC Program cut deeper into the working poor, reduce state flexibility in administering work requirements, and hit hardest at the poorest of the poor.

We have three basic concerns about this year's proposed changes:

- o they penalize the poorest of the poor;
- o they attack children and families under the rubric of "administrative" savings; and
- o they further discourage families struggling to work their way out of poverty.

As if AFDC children have not already given enough, this year the Administration seeks an additional $1.2 billion in AFDC cuts for FY 1983, a real cut of over $2 billion when loss of state matching funds is included. The additional cuts must be rejected.

1. The changes proposed for FY 1983 hit hardest at the poorest of the poor, removing any vestiges of the Administration's "safety net." AFDC families already live from crisis to crisis. As mentioned earlier, in most states AFDC payments are intolerably low, failing to provide even a minimum level of decency. Any extra need beyond a family's control -- a high utility bill in an unusually cold winter, a fire in the apartment, or theft of a family's belongings -- creates a crisis that the AFDC grant is simply inadequate to meet.

Yet, the Administration is proposing to eliminate the "safety net" programs Congress has established to help cushion the impact of these emergencies by:

- o eliminating the Emergency Assistance program. At their option, states can currently provide emergency assistance once a year to families in crisis (for example, paying for replacement bedding if the family has lost its furniture in a fire). Half the states now participate. This program would be abolished, and the only way states could provide emergency assistance would be through a "broadened" energy assistance program -- which the Administration proposes to cut by $565 million in FY 1983.

- o requiring that part of the value of low income energy assistance grants be counted as income in determining a family's AFDC benefits. Low income energy assistance grants were established to meet the emergency needs of the poor, whose ordinary income, including AFDC grants, was inadequate to meet the soaring costs of heat and electricity. Just last year, natural gas, the primary heating source for low income people, increased in cost by twenty percent. AFDC grants did not. Between 1980-1981, five states actually lowered their benefits. Michigan recently joined their ranks. In many other states grants have remained at previous years' levels. By requiring that low income energy assistance be offset, the basic goal of the energy assistance program, to help poor people whose income cannot keep pace with inflation in energy costs, would be defeated.

Without these two safety net programs, it is difficult to know how AFDC families can meet family crises with dignity and health.

Moreover, the Administration is proposing to penalize the poorest of AFDC families by depriving them of the benefit of any economies they may be able to achieve. These changes include:

- o reducing shelter and utility allowances to AFDC families who have chosen to share housing with other families, based on the Administration's assumption that they no longer need the full amount of shelter and utility assistance available to a family of their size. In fact, the opposite is often the case: welfare families

often share housing space precisely because the current full grant for housing and utility costs is inadequate to provide even minimally safe and decent housing. In Dallas, for example, the average cost of a two-bedroom apartment is $250 per month. The maximum AFDC grant for a family of four in Texas is $141 per month.

- o including the income of all unrelated adults as part of the AFDC household's income, whether or not those individuals are contributing to the family's care. Again, in these instances families may be forced to share an apartment to cut down on living expenses.

2. Even budget cuts described by the Administration as "administrative savings" in the AFDC program will have a devastating effect on poor families. These proposed changes include:

- o requiring states to round benefits to the lower whole dollar. Presently, states can "round up," giving families the benefit of the doubt when grant calculations come out to a dollar and change.

- o prorating the first month's benefit based on date of application.

- o reducing federal matching funds for erroneous benefit payments. States will be penalized by loss of federal matching funds for errors in excess of 3 percent of their AFDC caseload. By 1986, they will be expected to have a zero error rate.

- o combining administrative costs for AFDC, Medicaid, and Food Stamps.

While these savings are described as administrative, those who bear their brunt would be children and families. Meager benefit levels would be severely threatened by fiscal pressures on state budgets which would be caused by these proposed administrative changes.

Some of the changes also directly penalize families at a time when they are most in need -- for example, the requirement

that states prorate the first month's benefit based on date of application. States are now allowed to pay benefits back to the first day of the month of application. Under this proposal, states would be required to give a partial grant for the first month, prorated to reflect the date of application, even though a family may have been without income for the entire month and desperately needs a full month's grant.

3. The proposed cuts further penalize families struggling to work their way out of poverty. The Administration proposes to mandate workfare programs rather than to leave implementation of such programs to state option. At the same time, the Administration proposes to eliminate funding for the Work Incentive Program (WIN), the only present source of job counseling, training, placement, and support services for AFDC recipients struggling to find permanent employment. The workfare proposal limits states' flexibility to design work programs that best meet their recipients' needs: last year's amendments gave states the option of choosing among three new work-related options, and the current WIN program. This proposal would limit that flexibility the Administration thought so important last year. At the same time, along with other cutbacks in basic family support programs, it would eliminate the additional services many recipients need in order to become self-supporting.

The overall impact of the Administration's new proposals -- coupled with those currently being implemented -- will profoundly affect families trying to work themselves out of poverty. A recently released study by the Center for the Study of Social

Policy, documented that if these proposals are accepted the average AFDC working family will experience a reduction in disposable income from $595 per month in FY 1981 to $432 per month in FY 1983. In fact, the study goes on to say that if the FY 1983 proposals pass, the reduction in income will be so great that in 24 states a working AFDC family with average earnings will have less disposable income than a non-working family that receives only AFDC, Food Stamps, and energy assistance. When coupled with the loss of medical care and social services that accompanies the loss of AFDC in many states, a real question is raised as to whether families with children to feed, clothe, and care for can continue to work.

CHILD WELFARE

Children who have been separated from their families because of the failure of basic family supports are also severely threatened by the Administration's FY 1983 Budget proposals. I would like to highlight several points today about the Administration's Child Welfare proposals.

First: Despite its rhetoric about protecting the truly needy, the Administration is bent on hurting homeless children.

There are over one half million children in this country who have been separated from their families and are living, often at great distances from their families, in foster family homes, group homes, and child care institutions. Many of these children are just beginning to recognize the benefits of the Adoption Assistance and Child Welfare Act (P.L. 96-272) which was enacted with the overwhelming bipartisan support of the Congress in June 1980. P.L. 96-272 addresses the failures of child welfare systems throughout the country on behalf of these children. Members of Congress were well aware, thanks to the sustained advocacy of many members of this Subcommittee, that these homeless children were victims of gross public neglect by state and local governments. Congress realized that federal reforms and strong federal leadership were vital to protect these children from such abuses.

As enacted, P.L. 96-272 gives the over one half million homeless children and the thousands entering care each month the hope of permanent families, their own or adoptive ones. It encourages the development of homemaker services and other services to keep children at home. And when children in care cannot be returned home, it provides federal funds for adoption

subsidies to assist with the adoption of children with mental, physical, and emotional handicaps and other special needs. It also ensures the development of a range of procedural safeguards that protect children from entering care unnecessarily, provide quality care for children who must be placed, and ensure that children have case plans and periodic case reviews so that they are returned home or moved toward new permanent adoptive families in a timely fashion. As of today, for example, over 32 states, including Arkansas, Florida, Ohio, Tennesse, and Texas, have enacted legislation that mandates the review of children in foster care by a body external to the agency.

The vulnerable children and families who are just beginning to feel the benefits of this law often have no one to speak on their behalf. The existence of the federal law has been an important inducement for similar reforms in their states and localities. Over 35 states and Puerto Rico, for example, have now certified to the Department of Health and Human Services that they have implemented the law's requirements for IV-B funding, and 20 states have approved IV-E state plans making them eligible for federal funds for adoption subisdies. (Attachment A lists these states.) We assert, however, that in many of these states only the first steps toward making permanence a reality for all children have been instituted. Our experience with individual states shows that while P.L. 96-272 has been the occasion for massive policy revisions in many states, the changes in practice, which will impact on real children and families, are just beginning. We look forward therefore to the results

of the General Accounting Office study you have requested on implementation of P.L. 96-272. Meanwhile it is absolutely essential that the Act be maintained to ensure that the momentum toward permanence for all children will be continued.

Despite the fact that this Act provides such significant protections for truly needy children, this Administration last year, as you well know, proposed eliminating the Act and including the Title IV-B Child Welfare Program and the Titles IV-A and IV-E Foster Care and Adoption Programs addressed by the Act in the Social Services Block Grant, leaving the future of these truly needy children to the same states that just a year earlier had been accused of severe neglect on their behalf. Congress last year, responding to the Subcommittee's leadership, recognized these half million children as truly needy and defeated the Administration's proposal to repeal the Act. P.L. 96-272 remained intact in the budget reconciliation process, and both foster care and adoption assistance were maintained as entitlement programs. Yet in its FY 1983 Budget the Administration has again proposed including the child welfare services, foster care, and adoption assistance programs in a block grant, effectively repealing P.L. 96-272.

Second: The Reagan Administration's FY 1983 proposal for a Child Welfare Block Grant ignores the fact that P.L. 96-272 was designed to strengthen families and to ensure the most cost-effective use of public dollars.

The Adoption Assistance and Child Welfare Act attempts to redirect federal fiscal incentives away from out-of-home care and to encourage states where possible to preserve families, or when placement becomes necessary, to move children quickly into permanent families through return home or adoption.

The reforms in P.L. 96-272 not only benefit children but are cost-effective. By discouraging the unnecessary placement of children in foster care settings that can cost as much as $60,000 per year and encouraging the growth of alternatives that keep children in the home, P.L. 96-272 can lead over time to significant cost savings. Indeed the Department of Health and Human Services estimated, upon enactment of P.L. 96-272, that the law would save over $4 billion in out-of-home care costs over the next five years by reducing the average number of children in care by 30 percent.

There is evidence from a number of states and individual programs that the reforms anticipated by P.L. 96-272 will result in increased efficiency at the state and local levels and in long-range cost savings. Savings will be realized when the costs of implementing services to prevent placements and reunify families and adoption subsidy programs are contrasted with the costs of leaving a child to grow up in foster care. Consider just a few examples.

- In South Carolina, the average length of time a child spends in foster care has decreased by about 8 1/2 months from 1977, when the Foster Care Review Board System was first implemented, to 1980. If the 1,110 children who left care in 1980 had remained in foster care even another 8 1/2 months, it would have cost the state approximately $2.7 million, based on a minimum cost of $3,500 per year per child.

- In 1976, the Lower East Side Family Union in New York City provided alternative services to over 400 families, half of whom were identified as high-risk families whose children were likely to enter foster care. Over the course of the year, foster placements only had to be obtained for children in 11

of the families and in six of these families the children returned home in less than two months. That same year the Assistant Commissioner for Social Services for New York City testified before the Congress that services to prevent family breakup could be provided at a cost of less than half of that required to keep a child in foster family care for only one year.

- Efforts in San Mateo County, California, to implement reforms similar to those in P.L. 96-272 resulted in a 33 percent reduction in their foster care caseload during a three-year period from 1977-1980. If similar services and reforms are extended to June of 1985, the net savings in San Mateo County alone are estimated to be $1 million in 1984-1985.

- An "Agressive Adoption" program instituted in Cumberland County, Pennsylvania, resulted in the total number of children in foster care being cut in half in a five-year period, with an estimated savings to the county of over $600,000 when contrasted with direct expenditures for maintaining those children in care.

- One thousand and fifty six children in Los Angeles County, who had been in foster care were adopted during 1978-1980, and estimates of first year savings to taxpayers from the placement of these children was over $14 million.

Significant savings are evident too when you contrast the costs of the alternative services with the costs to the state when children who have been harmed by the foster care system end up spending their lifetime in institutional care. Experience in California, reported to this Subcommittee last year, has shown that half of the children who enter care at age 7 or 8 and grow up there can be expected to spend at least half of their adult lives in other institutions at a cost to the state for each of them of $25,000 - $30,000 per year. Data from a limited survey in New York City revealed that nearly half of

the abused and neglected children studied later re-entered the system as delinquents or status offenders.

The evidence is clear that the reforms encouraged by P.L. 96-272 and implemented, at least in part, in a number of states are directed toward permanent families and are cost-effective as well. The Reagan Administration proclaims budgetary wisdom but in proposing the Child Welfare Block Grant ignores findings like those just described that public dollars used to keep families together or to move children into permanent adoptive families are more cost-effective in the long run than placing or leaving children in out-of-home care.

Third: The Reagan Administration's FY 1983 proposal for a Child Welfare Block Grant will effectively repeal P.L. 96-272 and deny needy children their entitlement to foster care and adoption assistance.

In its FY 1983 Budget proposal, the Administration has proposed, once again, to include the child welfare program in a block grant. The Child Welfare Block Grant would include the Title IV-B Child Welfare Services and Training Programs, and the Titles IV-A and IV-E Foster Care and Adoption Assistance Programs addressed by P.L. 96-272. Funding for the block grant would be limited to $380 million for FY 1983 and thereafter. This limit would eliminate a needy child's entitlement to basic foster care and adoption assistance. Although the Administration asserts that the block grant would allow states additional flexibility to provide alternatives to foster care, in fact, $380 million is approximately the amount of federal funds estimated to be necessary for foster care alone in FY 1983. Further, the $380 million level is over 22 percent below the

current funding levels for these programs and 46 percent below the funding levels originally anticipated in P.L. 96-272 for FY 1983, which are essential to move toward the family permanence homeless children need.

Passage of any child welfare block grant would effectively repeal P.L. 96-272. States would no longer be given fiscal incentives to develop protections for individual children in care, such as case plans and periodic case reviews, or to ensure that children receive quality care and permanent families. Incentives for the states to develop cost-effective programs to keep families together and to reunify families that are separated would be eliminated, as would incentives for the adoption of special needs children.

It is especially tragic that this proposal to eliminate efforts to significantly strengthen our nation's child welfare system comes at the same time that other cuts of at least $2 million in the State grant portion of the child abuse program, $1.2 billion in AFDC, $2.1 billion in Medicaid, $2.4 billion in Food Stamps, and $426 million in the Social Services Block Grant are being proposed. If these cuts are accepted by the Congress, basic family supports will be further undermined, forcing more and more families to turn to the child welfare system for help as a last resort. We will hear more frequently reports like those from Texas where families are requesting temporary foster care for their children at a rate twice that of last year. Timing is critical. The reforms in P.L. 96-272 must be implemented now or an opportunity to turn around the damaging practices of this country's $2 billion foster care system will be lost. Pressures on the system will increase but it will be business as usual. Homeless children, the truly needy, will continue to be hurt.

SOCIAL SERVICES

At the same time the Administration is slashing away at the only federal program that protects children through basic income supports and is threatening the programs and protections offered children most at risk in the child welfare system, the Administration has proposed still deeper cuts in the Social Services Block Grant out of which states finance a range of supportive services programs for needy children and their families. I would like to make several major points to oppose any further reductions in the Social Services Block Grant and support Representative Ford's proposal for a $200 million increase in the program for each of the next three years.

First, the families and children who need services funded with Social Services Block Grant funds are in large part the same families harmed by recent cutbacks in the means tested entitlement programs and other family support programs.

Yet an additional $426 million in cuts is being proposed for the Social Services Block Grant for FY 1983. The funding level of $1.9 billion proposed for FY 1983 is almost $1 billion, or 36 percent, below the FY 1981 funding level for the program. Furthermore, the Administration is proposing to fund the WIN Program, the only current source of counseling, training, and job support for AFDC recipients, with Social Services Block Grant funds without making available any additional funding for the block grant.

Second, the cutbacks in the Social Services Program have severely limited access to quality child care for many poor working families.

There is no federally supported service more closely related to the ability of parents to work and support their families than child care. Therefore, further reductions in the Social Services Block Grant are totally inconsistent with the Administration's professed desire to get more people working. An estimated 150,000 families are expected to lose Title XX funded child care services as a result of the FY 1982 cuts, and over 100,000 additional families will likely be affected by the Administration's proposed cuts for FY 1983.

Previously, eligibility for free Title XX services was restricted to families whose incomes were less than 80 percent of their state's median income, with some partial subsidies for families up to 115 percent of the state's median income. Over 750,000 low and moderate income children benefitted from the subsidized child care available under Title XX in FY 1980

Many states have responded to reduced federal social services dollars by lowering the income eligibility criteria for child care. Our own contacts and a survey conducted by the American Public Welfare Association report that:

- Pennsylvania has changed eligibility criteria so that families with incomes over 90 percent of the state median income cannot enroll their children in state-supported child care programs even if they agree to pay the full fee.

- In Washington state, working families earning above 38 percent of the state median income ($773 a month for a family of four) are no longer eligible for subsidized child care.

- Rochester, New York, will no longer provide child care subsidies to newly income-eligible families. 452 families in Monroe County were affected by the changes. 130 families lost their family day care eligibility, and within

six months of notification of the change 25 percent of them were receiving AFDC or Food Stamps. In Albany, parents earning $8,000 a year must pay $16 a week (or $800 a year) for child care.

- Arkansas implemented a sliding fee scale for day care on January 1 of this year. Preliminary results from a survey on the impact of the scale indicate not only that children have had to leave care as a result of the fees, but that parents have had to quit work to care for their children. The 17 centers reporting to date have noted that 56 children have had to drop out of care since January 1.

- In West Virginia, one-third of the 300 families who received Title XX reimbursement in centers connected to the Central Child Care program lost their eligibility because of stiffened eligibility guidelines. To remain eligible for subsidized child care, many desperate parents have asked for reductions in already minimal salaries.

- The state of Missouri has lowered its reimbursement to day care centers and permitted the centers to charge clients of the centers to make up for the reimbursement reduction. Missouri has also restricted eligibility for clients who are in school or training programs.

Many working mothers will have to uproot their children and search for cheaper, less desirable care. Many states will make less money available to monitor or maintain minimal child care standards. A number of states are already reducing the standards that child care programs must meet. As a result, children will suffer as parents shift them from stable and familiar arrangements to less adequate and sometimes even harmful arrangements. Reports coming from child care providers in Des Moines, Buffalo, and other cities tell of increasing numbers of latchkey children without after school care.

Because of decreased funding many child care providers may find it impossible to maintain their programs unless they can

attract and charge higher fees to middle-income families. When hard-pressed middle-income families find the increased costs too burdensome, the decreased demand for services may force more centers out of business. Cutbacks in the child care food program and CETA, as well as further changes in the AFDC earnings disregards, and elimination of WIN and the Appalachian Regional Commission, also will increase pressures on child care providers and parents and severely threaten the quality of available child care.

Whereas a number of states have successfully tried to protect children's programs from the first round of budget cuts, they have made it clear that they cannot continue to do so. For example, some states that operate on a July through June fiscal year are only now really facing the impact of Reconciliation. In others, like Tennessee, United Way has helped out some centers in the short run. A Nashville center has continued to care for children of AFDC recipients who lost their benefits with a grant from United Way to cover care costs as well as funding for the child care food program. However to maintain those children for another year, United Way will have to increase its contribution 44 percent.

Third, by cutting back on funding for crucial family support programs, the federal government is forcing states to bear the burden of significantly increased long term costs for some families.

For example, the support services provided under the Title XX program, while never sufficient, have kept some families intact and prevented the need for more costly out-of-home care

for their children. Title XX funds have also contributed to the development of community-based treatment programs for emotionally disturbed children and other children with special needs, thereby averting their need for more costly institutional care. The proposed $1 billion reduction in the Social Services Block Grant is part of the Administration's unrelenting attack on a range of cost-effective preventive service programs in the areas of health, social services, and child welfare.

Although there has been in some states a concerted effort to protect protective services, the APWA survey referred to earlier highlights some exceptions. Tennessee, for example, has dropped both its companionship and family and individual counseling services, which served 653 and 1,760 children respectively. Texas has cancelled contracts for services to unmarried and school age parents and services to juveniles charged with status offenses including truants. Missouri also has reduced services to status offenders and delinquents.

Your legislation Mr. Chairman to restore funding to the Social Services Block Grant in $200 million annual increments for three years will help protect the families and children expected to benefit from social services programs.

CONCLUSION

Our work is cut out for us with the President's new budget, which seeks to take $8 billion in FY 1983 from the same needy children and families from whom $10 billion was already taken in FY 1982.

We look this year, as we have in the past, to this Subcommittee's leadership on behalf of the poor, handicapped and homeless. We are encouraged by an apparently growing focus on children's needs on Capitol Hill -- but realize the enormity of the task ahead.

In closing, we urge you to reject any further cuts and programmatic changes in AFDC, the Social Services Block Grant, and the Child Welfare, Foster Care and Adoption Assistance programs. We thank you for your diligent efforts to assess the impact of changes enacted in these programs. The results of this experience, as reflected in H.R. 5791 and H.R. 5226, offer hope to the hundreds of thousands of children and families who have been victimized.

We look forward to working together with you for children.

ATTACHMENT A

STATUS OF STATE ELIGIBILITY FOR
ADDITIONAL FUNDING
UNDER P.L. 96-272
(As of 3/17/82)

Region I

Ø Connecticut
Ø Maine
Ø Massachusetts
* New Hampshire
Ø Rhode Island
Ø Vermont

Region II

Ø X New Jersey
* New York

Ø Puerto Rico
Virgin Islands

Region III

* Delaware
* X Maryland
Pennsylvania
Ø Virginia
* West Virginia
District of Columbia

Region IV

Alabama
Florida
X Georgia
Ø X Kentucky
Ø X Mississippi
North Carolina
Ø South Carolina
Ø Tennessee

Region V

* Illinois
Indiana
ØX Michigan
X Minnesota
Ø Ohio
X Wisconsin

Region VI

ØX Arkansas
Louisiana
X New Mexico
Ø Oklahoma
X Texas

Region VII

* Iowa
ØX Kansas
ØX Missouri
ØX Nebraska

Region VIII

*X Colorado
ØX Montana
Ø North Dakota
*X South Dakota
Ø Utah
* Wyoming

Region IX

*X Arizona
California
Hawaii
* Nevada

Guam
Trust Territory of
Pacific Islands
American Samoa

Region X

Alaska
Idaho
ØX Oregon
ØX Washington

X - Has approved IV-E state plan; eligible for IV-E funds.
* - Has been approved as being in compliance with Section 427(a) of P.L. 96-272; eligible for over its share of 141 million in IV-B funds.
Ø - Has been approved as being in compliance with the preventive service program requirement in Section 427(b)(3) of P.L. 96-272 as well as the requirements in Section 427(a); eligible to apply for federal reimbursement for voluntary placements under IV-E as well as additional IV-B funds.

Mr. STARK. Thank you very much, Ms. Allen.

The next witness on the panel is Patricia Curran, member, Public Policy Committee and former president, Junior League of Syracuse, N.Y., and Jane Erisman, president of the Junior League of Wilmington, and vice-chairman of the Foster Care Review Board of Delaware.

Do you both have statements?

Ms. CURRAN. Yes.

Mr. STARK. Then Mrs. Curran, would you like to proceed? Without objection your entire statement will be placed in the record and you may summarize or read as you see fit.

STATEMENT OF PATRICIA CURRAN, MEMBER, PUBLIC POLICY COMMITTEE, ASSOCIATION OF JUNIOR LEAGUES, FORMER PRESIDENT, JUNIOR LEAGUE OF SYRACUSE, N.Y.

Mrs. CURRAN. Thank you, Mr. Chairman.

I am Patricia Curran of New York, a member of the Association of Junior Leagues Public Policy Committee and a past president of the Junior League of Syracuse.

Testifying with me today is Mrs. Jane Erisman, president of the Junior League of Wilmington, Del., and vice chairman of the Foster Care Review Board.

The Association of Junior Leagues is an international women's volunteer organization with 241 member leagues in the United States representing approximately 142,000 individual members.

Junior Leagues promote the solution of community problems through voluntary citizen involvement and train their members to be effective volunteers in their communities.

I appreciate this opportunity to appear before you today to express the association's concern about the devastating effect that we believe President Reagan's most recent budget proposals would have on some of our Nation's neediest children and their families.

I urge you to reject President Reagan's proposal to place child welfare services—title IV-B of the Social Security Act—foster care, adoption assistance and child welfare training, into a child welfare block grant and severely cut funding for these programs.

Further, we also urge you to reject further cuts in the title XX social services block grant, a program that sustained a 23 percent cut in fiscal year 1982.

I would like to thank this committee for the support you have given us in the past. We are delighted that the chairman of this subcommittee, Representative Harold Ford has introduced H.R. 5791, legislation that would change the funding level for title XX social service block grants.

We are also pleased that Congressman Matsui has introduced his bill, H.R. 5781 for the matching funds to be available to States at the time that the States issue checks or warrants or expenditures.

We thank you for putting our testimony in the record. That testimony has details of the association's reasons for making these requests and it also reports the support of junior leagues in a variety of States, including California, Florida, Louisiana, Missouri and Kansas for Public Law 96-272.

Our testimony also summarizes reports from junior leagues in several States about the cutbacks in services that communities have sustained as a result of the reduction in funding for title XX social services block grant.

Mrs. Erisman will shortly tell you why Public Law 96-272 is important in the State of Delaware. We believe the Delaware experience illuminates the need for the continuance of Public Law 96-272.

At the conclusion of Mrs. Erisman's testimony, either one of us or the members of our staffs, Mrs. Sally Orr, director of public policy, or Mr. Wayne Spalding, administrative coordinator for the Delaware Foster Care Review Board, will be pleased to answer any questions.

Again on behalf of the Association of Junior Leagues, thank you.

[The prepared statement follows:]

STATEMENT OF THE ASSOCIATION OF JUNIOR LEAGUES, INC., PRESENTED BY PATRICIA CURRAN, MEMBER, PUBLIC POLICY COMMITTEE

The Association of Junior Leagues urges the Subcommittee on Public Assistance and Unemployment Compensation to reject President Reagan's proposal to place the child welfare, foster care and adoption assistance provisions of P.L. 96-272 into a Child Welfare Block Grant and to oppose any further cuts in the Title XX Social Services Block Grant. The Association supports H.R. 5791, introduced by Representative Harold E. Ford (D-TN), and H.R. 5781, introduced by Representative Robert T. Matsui (D-CA).

I. The Association

A. International women's voluntary organization

B. 241 Junior Leagues; 142,000 individual members in the United States

C. Promotes the solution of community problems through voluntary citizen involvement, and trains Junior League members to be effective voluntary participants in their communities

II. The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272)

A. Congress passed this law with strong bipartisan support in 1980 and rejected President Reagan's proposal to place P.L. 96-272 in Social Services Block Grant last year.

B. Association urges rejection of President Reagan's proposal for Child Welfare Block Grant.

1. Block grant would eliminate entitlement nature of foster care and adoption assistance program and eliminate fiscal incentives to states to implement the procedural reforms and the development of preventive and reunification services mandated by P.L. 96-272.

III. Title XX Social Services Block Grant

A. Association of Junior Leagues opposes President Reagan's proposal to cut Social Services Block Grant to $1.9 billion, a cut of more than $500 million from the ceiling of $2.45 billion established by the Omnibus Budget Reconciliation Act for Fiscal Year 1983.

C. Another drastic cut in social services can be expected to cause chaos in social services delivery by the states. Although it is too early in many cases to ascertain the effect the cuts are having on social services, many states are reporting severe cutbacks in child care, especially programs for the working poor.

STATEMENT

I am Patricia Curran of Marcellus, New York, a member of the Association of Junior Leagues' Public Policy Committee and a past president of the Junior League of Syracuse. The Association of Junior Leagues is an international women's volunteer organization with 241 member Leagues in the United States, representing approximately 142,000 individual members. Junior Leagues promote the solution of community problems through voluntary citizen involvement, and train their members to be effective voluntary participants in their communities. The Association's commitment to the improvement of services for children is long-standing. Junior League volunteers have been providing services to children since the first Junior League was founded in New York City in 1901. In the 1970's, the Association and individual Junior Leagues expanded their activities on behalf of children to advocate for legislation and administrative changes directed at improving the systems and institutions which provide services to children and their families.

I appreciate this opportunity to appear before you today to express the Association's concern about the devastating effect that we believe President Reagan's most recent budget proposals would have on some of our nation's neediest children and families. The Association worked actively last year to preserve the Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272). Fortunately for our nation's children, Congress, with

strong leadership from this subcommittee, responded to the pleas of child advocates to save this landmark legislation and refused to place it in a Social Services Block Grant as requested by President Reagan.

I now appeal to you to reject President Reagan's most recent proposal--to place child welfare services (Title IV-B of the Social Security Act), foster care, adoption assistance and child welfare training into a Child Welfare Block Grant and severely cut funding for these programs.

We are pleased at the unanimous decision of the members of the Subcommittee on Public Assistance and Unemployment Compensation to request the Comptroller General of the United States to undertake a study regarding the manner in which the Department of Health and Human Services is implementing this important piece of legislation. We strongly concur with the subcommittee statement that "the lives of thousands of children would be significantly improved" if the child welfare, adoption assistance and foster care reform provisions of P.L. 96-272 were adequately implemented. Further, we are concerned that the President's proposal to establish a funding level of $380 million for the Child Welfare Block Grant for Fiscal Year 1983 would put a stop to the impetus provided by P.L. 96-272 to strengthen the child welfare system. Such a funding level represents a cut of

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at least 23 percent below the amount the Administration estimates these programs will cost during this fiscal year and 46 percent below the funding levels originally expected for these programs for Fiscal Year 1983 when P.L. 96-272 was enacted in 1980. We also urge you to reject further cuts in the Title XX Social Services Block Grant, a program that sustained a 23 percent cut in Fiscal Year 1982.

We are delighted that the Chairman of this subcommittee, Representative Harold E. Ford, has introduced H.R. 5791, legislation which would raise the funding level for the Title XX Social Services Block Grant to $2.6 billion for Fiscal Year 1983 and allow the funding ceiling to raise $200 million per year until it reaches $3 billion for Fiscal Year 1985. We also are pleased that Representative Robert T. Matsui has introduced H.R. 5781, legislation to require that Title XX Social Services matching funds be available to states at the time the state issues checks or warrants for expenditures under these programs. We believe it is essential to the efficient functioning of social services programs that states not have to wait indefinitely for federal checks.

I now would like to touch briefly on the Association's reasons for opposing the proposed Child Welfare Block Grant and further reductions in funding for the Title XX Social Services Block Grant.

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272)

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) was passed in 1980 with strong bipartisan support after almost five years of effort by child advocates--inside and outside of Congress--on behalf of the reforms embodied in P.L. 96-272. Currently, some 500,000 children are in some type of foster care in this country. The Adoption Assistance and Child Welfare Act of 1980 was designed to reform this country's child welfare system by providing fiscal incentives for states to redirect their child welfare services from out-of-home care to provide services to help families stay together as well as services to reunify families that have been separated. When reunification is not possible, the procedural reforms mandated by P.L. 96-272 encourage the termination of parental ties and moving the child out of foster care into a permanent adoptive home. P.L. 96-272 mandates procedural reforms such as the development of case plans, case reviews, including a dispositional hearing after a child is in care 18 months, and inventories of children in foster care, and establishes a subsidized adoption program for children with special needs--mental, physical or emotional handicaps.

Demonstration projects across the country have shown that the reforms mandated by P.L. 96-272 are cost-effective and long-lasting. For instance, in California, the results of two demonstration projects established by the state's Family Protection Act proved that admissions to out-of-home placement drop when services such as counseling, homemaker service and respite care are provided to troubled families.

Representatives of the San Francisco and Palo Alto Junior Leagues, two of the eight Junior Leagues in California that supported passage of the Family Protection Act, served on the FPA Evaluation Committee of the San Mateo County Department of Health and Welfare's Family and Children's Services Advisory Committee. The effects of the demonstration project were dramatic in San Mateo County. There was a 33 percent decrease in the admissions to foster homes and institutions in the three-year period from September 1977 to September 1980. This significant drop came at a time when the reduction in out-of-home placements statewide was only one percent. Most importantly, in 1975, before the project was initiated, 47 percent of the children placed out-of-home that year were still in placement two years later.

The California State Public Affairs Committee (SPAC), representing the 15 Junior Leagues in California, strongly supports P.L. 96-272. The California SPAC also is supporting

S.B. 14, the California version of the Adoption Assistance and Child Welfare Act of 1980. In addition, the Junior League of San Jose has joined the Foster Care Network in support of S.B. 14 and is supporting a local Family Education Center which provides services to young mothers who need assistance in avoiding abusive child rearing patterns.

In a recent letter to Representative Leon E. Panetta (D-CA) in support of P.L. 96-272, the Chairman of the California SPAC wrote:

> Children have a hard time competing for the limited funds available since they have few lobbyists. The child in the lonely foster care system has few advocates. Please protect this limited budget to implement what the Leagues will support with their dedicated volunteer hours. All over the nation, Junior Leagues are involved in child welfare reform and foster care review systems.

Many other Junior Leagues and SPAC's have written similar pleas. For example, on March 1, the president of the Junior League of New Orleans wrote to Louisiana's Senators and the Congressmen representing New Orleans that:

> The Junior League of New Orleans has studied the area of parenting for more than five years and, in particular, foster care and child abuse for the last two years. As founders of the Parenting Center in New Orleans, we are concerned that family problems be dealt with at an early stage, and solutions be developed as quickly as possible. Having studied the Louisiana Plan for carrying out the federal mandates of this law, we feel that this act addresses the problems now existing in foster care and in reported cases of child abuse. Full funding is necessary to assure that all the proposals in this act become part of the Louisiana Plan.

The president of the Junior League of St. Louis wrote the Missouri Congressional delegation:

> Missouri legislators have taken advantage of these mandates [P.L. 96-272] by submitting several bills which would enact these policies in our state. Any attempt to further cut federal incentives would seriously hamper Missouri's efforts. We are dealing with programmatic concerns and funding...earmarked for the growing problems affecting children. We believe children deserve special mention in social service funding. There is growing attention given to keeping families

intact and giving each child the opportunity to have a permanent, nurturing home.

The Child Welfare Block Grant proposed by President Reagan would effectively destroy P.L. 96-272 by eliminating all fiscal incentives for states to institute the reforms it mandates. The proposed Child Welfare Block Grant also would eliminate the entitlement nature of both foster care and the adoption assistance program. P.L. 96-272 does not allow a cap to be placed on foster-care funding until a certain amount of money has first been appropriated under Title IV-B to provide for preventive and reunification services. To cap foster care without first providing funding for preventive and reunification services, could lead to situations endangering the lives of children. The entitlement status of the adoption assistance program assures states that funds will be available on a long-term basis for the subsidies needed to provide adoptive homes for special needs children.

Already, some states are indicating a hesitancy to continue their programs. In Florida, for example, District Nine of the Florida Health and Rehabilitative Services, a district covering the counties of Palm Beach, Okeechobee, St. Lucie, Martin and Indian River, has frozen its subsidized adoption program because of the uncertainty of future funding.

According to Diane Sasser, the Public Affairs Chairman of the Junior League of the Palm Beaches who serves as chairperson of the Advisory Board for District Nine of the Florida Health and Rehabilitative Services, several innovative preventive programs in that district also are threatened by the proposed cutback in funding for child welfare services. District Nine used its Title IV-B funds to hire three part-time homemakers to work with families and children in their homes. According to Mrs. Sasser, several of the children would have faced placement in foster care if the program had not been established. District Nine also was able to contract with a community agency to establish a counseling program for abusive and neglectful parents.

The fourteen Junior Leagues in Florida have adopted a position statement in support of permanency planning and supported passage of the state's volunteer guardian ad litem program.

The State of Florida has not yet self-certified for its additional IV-B monies because it has not completed an inventory of children in foster care more than six months, or established an information system to meet the requirements of P.L. 96-272. Elimination of P.L. 96-272 and its requirements would seriously impede the efforts of the Junior Leagues to develop permanency for their state's children because the incentives would no longer exist to encourage the state to meet the requirements established by P.L. 96-272.

The requirements of P.L. 96-272 also brought change to the State of Kansas. In March, the Association's Public Policy Chairman, Jan Deering of Wichita, Kansas, testified before the Senate Finance Committee that:

> For the first time, as a result of a permanency-planning project initiated by the Kansas Department of Social and Rehabilitative Services (SRS) in 1980, detailed statistics are available on the children in out-of-home placement in my state.
>
> According to a report issued by SRS in November 1981, 5,914 children were in some form of out-of-home placement as of June 30, 1981. Two hundred and six of these children had been in nine or more placements. Almost 1,500 of them had been in care for more than three years. Slightly more than 450 of these children had been in care for more than eight years. Furthermore, the case plan for 68 of the children who were in foster care for six years or more still read, 'return to parents.' Significantly, despite the inauguration of the permanency-planning project in Kansas, case plans still have not been developed to date for more than 500 of the children in out-of-home care.

To comply with the requirements of P.L. 96-272, Kansas is moving toward the establishment of a judicial review system for children in out-of-home care. Legislation mandating judicial review has passed the Kansas State Senate and is awaiting approval by the State House of Representatives. The three Junior Leagues in Kansas, working through their Kansas State Public Affairs Committee (SPAC), strongly support this legislation.

Experiences with foster care review systems in other states indicate that regular reviews such as those mandated by P.L. 96-272 result in achievement of permanency for children either by reuniting families or, when this is not possible, terminating parental rights, freeing the child for adoption. We are certain that many of those children who have been in foster care for the past eight years in Kansas would have permanent homes today if P.L. 96-272 had been enacted earlier. In fact, caseworkers with whom I spoke mentioned a 'stagnant population that was passed over ten years ago.' As you are aware, expenditures of monies directed toward programs which prevent children from entering foster care and those which enable children to move from the foster care system into permanent adoptive homes are cost-effective. In Kansas, the adoption support program

> is one of the most cost-effective programs we have due to its ability to reduce the number of children who might be caught permanently in the foster care system.

The amount requested by President Reagan for the Child Welfare Block Grant for the next fiscal year is only slightly less than the amount that is projected to be spent on foster care alone in Fiscal Year 1983. States already hard-pressed to fund existing needed programs will have little incentive to develop new programs. Nor will they be encouraged to establish subsidized adoption programs which require long-term financial commitments to adoptive families--even though these programs eventually will save thousands of dollars in foster care payments and, most importantly, provide some of this nation's neediest children with permanent homes.

States are unlikely to begin to change old patterns of behavior unless they can be certain that some type of fiscal help will be forthcoming from the federal government. Three years ago, Jane Erisman of the Junior League of Wilmington, Delaware appeared before this subcommittee to urge support of H.R. 3434 (the bill that became P.L. 96-272). As Mrs. Erisman explained:

> Lobbying experience with Delaware's General Assembly has taught us that our state legislators look first to the

federal government for procedural guidelines and availability of funds in deciding the validity of proposed legislative reforms...

Mrs. Erisman, who serves as president of the Junior League of Wilmington and vice chairman of the Foster Care Review Board for the State of Delaware, is here with me today to tell you what the federal leadership for foster care reform has meant for her state and to urge your continued support of P.L. 96-272.

Congress showed its determination to save P.L. 96-272 by refusing to place Title IV-B, foster care and adoption assistance, in a Social Services Block Grant during its last session. We urge you now to reject the President's most recent proposal to place these programs in a Child Welfare Block Grant and to reject any further cuts in the funding for Title IV-B.

Title XX Social Services Block Grant

We also believe that it is imperative that Congress not make any further cuts in the Title XX Social Services Block Grant, the major federal funding program for social services in this country. Many of the core services needed to help families, such as protective services, homemaker service, day care and respite

care are funded by Title XX. The implementation of the reforms mandated by P.L. 96-272 depends on support services such as those funded by Title XX.

The Omnibus Budget Reconciliation Act of 1981 placed Title XX of the Social Security Act in the Social Services Block Grant along with Title XX training and social services monies for the territories. Funding for the Social Services Block Grant was set at $2.4 billion, a cut of 23 percent from the almost $3.1 billion funding set by P.L. 96-272 for Fiscal Year 1982 for the programs included in the block grant.

Now, President Reagan has requested that the Social Services Block Grant be cut back to $1.9 billion in Fiscal Year 1983, more than 500 million dollars below the $2.45 billion established for it for Fiscal Year 1983 by the Omnibus Budget Reconciliation Act. We believe that such a large cut coming directly on the heels of the substantial cut made for this fiscal year will throw social services programs across the nation into chaos. It is still too early in many cases to determine the type and extent of the effects of this year's cuts. For this reason, we believe that it would be unwise to make any further cuts until more information is available about the effect this year's cuts are having on social services.

We already know, however, that the cuts have eliminated many vital programs, especially those for the working poor.

In Onondaga County, New York, the director of the Onondaga Child Care Council, an organization whose Board includes a representative of the Junior League of Syracuse, reports that the county will have to eliminate all child care provided for low-income working parents by October 1 unless the state legislature passes a supplemental funding bill of 20 million dollars. Without the supplemental funds, child care centers in Onondaga County will have to charge parents the full cost of care, thus ending services to all children whose parents cannot pay the full fees. If President Reagan's most recent proposals are accepted, Onondaga County still will have to eliminate the programs for low-income working parents, even if the state supplemental appropriations bill is passed. Similar situations exist in several other New York counties. At least one county, Monroe, already has eliminated child care for low-income working parents.

The situation in New York, as in many states, is complicated by the fact that the state and the counties have different fiscal years than the federal government. For instance, the current federal fiscal year began October 1, 1981. Onondaga County's fiscal year began January 1 and the State of New York will begin

its new fiscal year April 1. This disparity in the beginning of the fiscal years makes it very difficult to gauge the effects of the most recent budget cuts at this time.

In Kansas, the Department of Social and Rehabilitative Services (SRS) has reduced the day care slots it funds in the Wichita area from 800 to 280 and reduced its eligibility level for Title XX day care from 64.3 percent to 55 percent of the state's median income. SRS also has shifted all of its AFDC recipients out of Title XX day care, requiring that they pay for child care with the child care deduction allowed under AFDC. According to most observers in Kansas, parents who have lost day care for their children are trying to maintain their jobs by making unsatisfactory or makeshift child care arrangements, placing their children in unlicensed homes or leaving them alone. A survey made of the 492 working families in Sedgwick County that were eliminated from the subsidized child care programs found that only 20 of these families are using the child care deduction. Because of the new AFDC requirement for retrospective budgeting, families will have to wait two months to receive reimbursement for their child care expenses. Very few families making the minimum wage can advance the two months payment required before the child care deduction becomes available. Moreover, the child care that parents are able to purchase with the $160 child care deduction often is not of the quality provided in a Title XX Center.

A similar situation regarding child care exists in other parts of the country. In Pennsylvania, for instance, the state government responded to the federal budget cuts by reducing the eligibility levels for subsidized child care in November, dropping the level from 115 percent to 90 percent of the state's median income, and requiring that every parent pay some fee regardless of income. Before November, families in Pennsylvania whose incomes were 65 percent or less of the median income could receive free child care. Now every family must pay at least $20 per month. As a result of these changes, according to the Keystone Kids, an organization to which the Junior League of Pittsburgh belongs, parents who formerly paid $800 a year in child care expenses now are faced with paying $2,000 or more. Two hundred of the 1,900 children receiving subsidized care in Allegheny County were eliminated from the program as a result of the changes. A survey done in January of 135 of these children's parents showed that 45 percent of the parents had not been able to find substitute care. Forty-three percent of the parents who could not find substitute care had annual incomes of under $10,000 a year and almost three-quarters of them were single women.

As a result of this year's cuts in funding for the Title XX Social Services Block Grant, the State of Florida has frozen all social services positions. As a result, many positions are unfilled. According to Ree Sailors, Executive Director of the

Florida Center for Children and Youth, an organization whose board includes a representative of the Florida Junior Leagues, the freeze on hiring has hit especially hard at the Children, Youth and Families Division of the State Health and Rehabilitative Services (HRS) because there is a high turnover of case workers in the division, ranging as high as 100 percent a year in some districts.

Innovative programming also is threatened by the HRS freeze. For example, Carole Zegel, a member of the Association's Area III Council and Volunteer Coordinator of the Eighth Judicial Circuit, State of Florida Guardian Ad Litem program, reports that, as a result of the freeze, there is no supervisor for a protective services model program established by the State of Florida in Alachua County. Mrs. Zegel also reports that the HRS District Seven cannot comply with the mandates of a state law requiring children whose parental rights have been terminated to be placed for adoption within 90 days, because the freeze has cut the district's adoption staff in half.

Parental rights have been terminated for three families with a total of nine children since January of this year. According to Mrs. Zegel, potential adoptive homes are ready for all of these children, but the district office does not have sufficient staff to process their cases in time to comply with this law. HRS

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District Nine, which includes the counties of Palm Beach, Martin, St. Lucie, Indian River and Okeechobee also lost two adoption workers. In addition, District Nine has lost two day care programs that served the Glades, a low-income area in Okeechobee County with many migrant workers. As Mrs. Sasser, chairperson of the District Seven Advisory Board points out: "both parents in the families served by these day care centers must work to survive. Consequently, the children removed from day care either are left alone or in the care of older siblings who in turn must stay out of school, leaving them without an education which, in turn, makes it impossible for them to improve their economic situation."

Many of those who supported the first round of budget cutbacks also are requesting a halt to further cuts in social services. For instance, in November 1981, the Junior League of St. Louis joined the National Council of Jewish Women (St. Louis section) and the Missouri Child Care Association in writing to President Reagan to oppose further cuts in the social services. In their view:

> The first round of cuts was difficult but necessary, and our communities are dealing with them in a spirit of co-operation. The second round of cuts, proposed for Congressional action later this month, however, causes us concern.

Since the President first proposed a $1.9 billion ceiling for the Title XX Social Services Block Grant in November, the concerns of the three organizations are valid today. Their letter said the following reductions in children's programs were likely to occur if the Social Services Block Grant was cut to the level requested by President Reagan:

- Family counseling services will be substantially reduced.
- Preventive child abuse and neglect services will be eliminated.
- Child abuse and neglect cases will be maintained for only one year.
- Day care services will be reduced by 18 percent in addition to a 22 percent cut sustained in the first round.
- Three group homes for delinquent children will be closed.
- Residential services for children will be reduced by 18 percent in addition to a five percent cut sustained in the first round.

The three organizations also wrote Governor Christopher Bond to thank him for "his courageous and thoughtful objections to the second round of social-service-related budget cuts proposed by President Reagan."

The difficulties the poor, especially the working poor, are having in obtaining appropriate child care will be further exacerbated if Congress accepts President Reagan's proposal to eliminate funding for the Work Incentive Program (WIN).

Similar stories, I am sure, could be reported from all parts of the country. We hope by the end of this fiscal year to have more comprehensive reports of the effects of the budget cuts on children's programs. The Association is collaborating with the Children's Defense Fund in developing Child Watch, a project designed to monitor the effects of the federal budget cuts on children's programs in four areas: AFDC, child health, child welfare and child care. Six Junior Leagues, including the Junior League of Wichita, are conducting Child Watch projects in their communities. Two Junior Leagues--Indianapolis, Indiana and Jacksonville, Florida--will participate in the Public Expenditures for Children project developed by the Foundation for Child Development to analyze the effect of the Administration's budget actions on children's programs in six cities. We hope that these

monitoring efforts will develop information that will help Junior Leagues to effectively assess the needs of their community's children, and we look forward to sharing this information with you.

In conclusion, I urge you to continue to safeguard the health and lives of our nation's neediest women and children by providing adequate funding for the programs that serve them and preserving P.L. 96-272.

Thank you for allowing me to appear before you today on behalf of the Association of Junior Leagues.

Mr. STARK. Thank you, Ms. Curran, for your testimony.
Mrs. Erisman, welcome to the committee.
Proceed.

STATEMENT OF JANE S. ERISMAN, PRESIDENT, JUNIOR LEAGUE OF WILMINGTON, DEL., AND VICE CHAIRMAN, FOSTER CARE REVIEW BOARD, STATE OF DELAWARE, ON BEHALF OF THE ASSOCIATION OF JUNIOR LEAGUES

Mrs. ERISMAN. Thank you, Mr. Chairman.

This is the second opportunity that I have had to appear before this subcommittee. The first time was about 3 years ago when the Junior League of Wilmington had written and was lobbying for legislation which would establish a citizen statewide foster care review board.

At that time I also told you about Jenny, which was a rather bleak composite of the average foster child in care in Delaware. We told our State legislators about Jenny and about the federal leadership in what was shortly to become Public Law 96-272.

As a result, they enacted a compromise version of our bill which allows us to periodically review roughly a quarter of Delaware's foster care population. As a member of the review board, I have now met many of the children who Jenny represented. Today I would like to tell you about another child whom I will call Nancy.

But this is an actual case, a very recent case. She is 11 years old. She entered care at birth but it was not until age 7 that she was legally free for adoption although there was, from the outset, absolutely no possibility that this child could return to the biological parents.

Another 4 years has elapsed since she was legally freed for adoption and Nancy still remains in care. Nancy's case typifies, I think, one of the prime barriers to permanency for children. That is the agency's inability to make timely or beneficial decisions for these children because they don't have a case plan.

Public Law 96–272 mandates, case plans and they are greatly needed. Nancy has been with the same foster family all of her life, but the foster parents divorced and Nancy went with the foster mother.

The review board, in looking at Nancy's case, recommended immediate adoption, with first consideration being given to the foster mother. The agency came back and said we disagree. We need more time to evaluate this case that we have had for over 10 years.

The board petitioned family court for a hearing and we also requested the services of a guardian ad litem.

Yesterday, after talking to the review board, and after talking to the guardian ad litem, the agency announced that tomorrow, Friday, it will file an adoption petition for Nancy.

Needless to say, we are ecstatic at this point.

We have been busy compiling other statistics and findings which are detailed in my written testimony for you, but very briefly I would like to share two or three things with you.

Eight percent of the first group of children that we scheduled for review left care within 30 days after notice of review. Also, after our first year in review, we studied children who returned home, both those that we reviewed and those that we were not able to review.

In the latter group, there were twice as many white children as nonwhite, although nonwhites make up over 50 percent of Delaware's foster care population. However, in the group that we were able to review, there was an equal number of whites and nonwhites returning home, which we found very significant.

We have also documented the grossly inadequate mental health services for adolescents in our State, consequently our review board has initiated a media campaign to direct attention to this problem.

We are encouraged by our progress and by the identification of problems. These results were achieved because the reforms mandated in Public Law 96-272 are working. But we still have a long way to go. Delaware needs to overcome the financial disincentives for foster parents adoption.

We hope that shortly Delaware will qualify for the adoption assistance program. We need to review every child in foster case as Public Law 96-272 mandates and we need to continue to strive for a permanent home for each child. Although Nancy's is just one case of many, every case could have that happy ending and it is the means to that end that is crucial.

I am here to tell you that Public Law 96-272 is providing the means to that end. We urge you not to include Public Law 96-272 in the child welfare reform block grant and we also urge you not to allow further cuts to be made to the title XX social services block grant.

I thank you for the opportunity to appear before you today.

[The prepared statement follows:]

STATEMENT OF THE JUNIOR LEAGUE OF WILMINGTON, INC., IN CONJUNCTION WITH THE ASSOCIATION OF JUNIOR LEAGUES, INC., PRESENTED BY JANE S. ERISMAN, PRESIDENT, JUNIOR LEAGUE OF WILMINGTON, INC., VICE-CHAIRMAN, FOSTER CARE REVIEW BOARD OF THE STATE OF DELAWARE

SUMMARY

The Junior League of Wilmington and the Foster Care Review Board of the State of Delaware urge the House Subcommittee on Public Assistance and Unemployment Compensation to reject President Reagan's proposal to place child welfare, foster care and adoption assistance provisions of P.L. 96-272 into a Child Welfare Block Grant and to oppose any further cuts in the Title XX Social Services Block Grant and Title IV-B funding.

I. Foster Care Review Board of the State of Delaware

A. Legislation implementing this Board passed in 1979.

B. Board has been reviewing for 1-1/2 years.

C. Federal leadership made foster care review possible in Delaware.

D. Federal leadership made Guardian ad litem program possible in Delaware.

E. Scope of Review Board.

II. Findings of Review Board

A. Children in review sample compared to unreviewed children.

B. Adoption assistance.

C. Further findings.

III. Need for Federal Leadership in Child Welfare Reform

A. Continuation of Delaware's Foster Care Review Board.

B. Administration's "band-aid" approach.

IV. AGENCY COMPLIANCE WITH P.L. 96-272

A. Self-certification under Title IV-B.

B. Specific reforms.

C. What has yet to be done.

D. Opinions of agency workers.

V. Rejection of Administration's Proposal

A. Child Welfare Block Grant.

B. End to entitlement nature of Foster Care and Adoption Assistance.

C. Further cuts in Title IV-B or Title XX Social Services Block Grant.

STATEMENT

Representative Ford and members of the Subcommittee:

I'm appearing before you today for the second time - the first having been 3 years ago when the Junior League of Wilmington had written and was lobbying for legislation that would establish a citizens review of children in foster care in Delaware. Today, I'm happy to report a success story to you.

Since that time, Delaware's General Assembly passed a compromise version of our League's foster care review bill, Governor DuPont appointed a 21-member statewide citizen review board of which I am vice-chairman, and we have been reviewing cases for about 1-1/2 years.

All this has happened, in large part, due to the fact that the Junior League of Wilmington convinced Delaware's legislators that a train, in the form of what is now P.L. 96-272, was coming down the track. We urged them to once again be the "First State", and start to comply with what would ultimately be federal law, by mandating review of children in foster care and adherence to permanency planning principles for children out of their homes.

Apparently, federal leadership in child welfare reform opened the eyes of more people than our legislators. Subsequent to the passage of the review legislation, the League was able to "sell" to the Family Court of the State of Delaware a pilot Guardian ad litem program that we designed, and for which we had been advocating for some time. This program - independent representation in court for children in neglect and abuse cases - is now operational in our northern county, and is being expanded statewide.

P.L. 96-272 was a heavy emphasis on review of children in foster care, and I would like to share some of the initial statistics that we have been able to document through the Foster Care Review Board in Delaware.

The Board, through the compromise legislation, is allowed to review only about one-quarter of the foster children in Delaware. However, we have selected a representative sample of children, and therefore, the statistics I will give you should be reflective of the total foster care population in Delaware. The comparisons given will be children in the review sample versus unreviewed children.

After one year of review we found that:

1. While we review only 25% of children in foster care, these children accounted for 40% of the total foster care population's exits from care;
2. 10% of unreviewed children exited to adoptive homes, while 20% of children in review sample exited to adoptive homes (This is a 2-1 ratio in favor of reviewed children. Review obviously established an opportunity to see the potential for adoption.);
3. non-whites compose only 17% of the total population in Delaware, but over 50% of the long-term foster care population;
   a. of unreviewed children returned home, whites outnumbered non-whites 2 to 1;
   b. of children in review sample returned home, the ratio of whites to non-whites is 1 to 1 (If review continues to produce these results, it will have a tremendous impact in the long run on the long-term foster care population, resulting in large monetary savings.);
4. In the review sample, there is a 4-1 ratio of foster parents who are keeping children on a long-term care basis

versus adopting them (when interviewed in review sessions, these foster parents often say that they would like to adopt, but the financial disincentives for adoption prevent them. This appears to be due largely to the fact that agency workers are not yet sufficiently informed about adoption assistance, which prior to P.L. 96-272 was available only through extremely limited state funds.).

The Review Board has also:

1. pointed up the need for and beneficial results from a written case plan to which the biological parents agree;
2. provided a chance for foster parents to participate in the permanent planning process;
3. by invitations, caused many biological parents, whom the agency had "lost", to appear at review sessions;
4. encouraged the agency to work with those parents whose cases should not have been closed in the first place (We suspect this is particularly true of minority parents);
5. distributed information to biological parents on their retained rights;
6. identified and documented many service gaps, particularly in mental health services for children;
7. discovered the state's non-compliance with P.L. 94-142, in not having surrogate parents involved in educational plans for handicapped children;

8. discovered a social-worker turnover rate in reviewed foster care cases of 37% per year;
9. documented the disproportionate ratio of non-white social workers to non-white foster care population;
10. identified, and shared with the mandated agency, specific workers and supervisors who are consistently producing substandard case plans and social work;
11. shared with workers the knowledge of individual Board members about community resources which can be utilized in offering services;
12. found children placed in expensive state institutions with no reasonable documentation for the child's need to be so placed;
13. discovered and documented the unwillingness of some group homes and institutions to provide the mandated agency with reports on children in their care, but in the agency's custody;
14. discovered that very few realistic plans exist for preparing older foster care children for independent living.

I believe these facts and figures attest to the need for reform legislation such as P.L. 96-272. Without the concurrent clout that P.L. 96-272 gives our state's citizen review board, we may be much less successful in improving the plight of foster children in Delaware.

Furthermore, the compromise review legislation that was passed in Delaware requires that the Foster Care Review Board present a formal evaluation report to the General Assembly in December, 1982. Based on this report, the legislature will decide whether to abolish, expand or maintain the Review Board. I would hope that some of the surface information I have shared with you, plus the in-depth statistics and findings that the evaluation will produce, will convince our

legislature that such a review is very necessary. However, if we can no longer point to federal leadership in child welfare reform, nor promise federal aid in funding such reform, the Review Board may become one of those programs that falls victim to the "band-aid" approach of the present Administration.

Short-term budget cutting in child welfare reform will cause long-term increases in spending for programs that provide little, other than food, shelter and clothing, for children out of their homes. And these increases in spending will prevent monies from going to provide crucial preventive and re-unification services. It is time now to stop this increasingly vicious circle.

In the short time since the passage of the Adoption Assistance and Child Welfare Reform Act of 1980, our state-mandated agency, the Division of Social Services, has attempted to implement the requirements for compliance with P.L. 96-272. Indeed, Delaware has self-certified for a portion of the available funding under Title IV-B.

They have accomplished the required inventory and have partially implemented internal case review and case management. As yet, there has been no judicial 18-month dispositional review, but it is my understanding that plans for this are initiated.

While great strides have been made in view of this legislation, there is still much to be done. The day that children in Delaware will actually benefit from the mandated reforms is a long way off. We must give the agency time to change plans into action and workable procedure.

I asked several agency workers what they thought would happen to the planned refors if N.L. 96-272 were allowed to be gutted by the present Administration. Each one expressed some doubts that the agency would be able to continue to pursue all the necessary reforms in children's services, principally because of funding problems. As one D.S.S. employee put it, "These reforms are simply good social

practice." If we remove the incentive for reform, and if agencies subsequently no longer strive for, or have money to accomplish, these much-needed reforms on their own, are we then consigning foster care children to a system that does not believe in, or adhere to, even "good social work practice"?

The Administration's proposal to include Title IV-B Child Welfare Services, Foster Care, Adoption Assistance and Child Welfare Training in a Child Welfare Block Grant for FY 83 would effectively decimate and repeal P.L. 96-272, which Congress so recently passed. The irony is that this legislation, which has been hailed nationally by children's advocates, would not have a chance to put its intended reforms in place before being struck down in the name of the new federalism.

Additionally ironic is the fact that failure to implement the Adoption Assistance and Child Welfare Reform Act as originally intended will necessitate ever-increasing expenditures on maintenance programs that are not child - or cost - effective.

Furthermore, Foster Care and Adoption Assistance are presently entitlement programs. The Administration's proposal would end these entitlements, which are needed to allow agencies to plan ahead and pursue aggressive programs for finding children permanent homes.

Additional cuts in Title IV-B funding or in the Title XX Social Services Block Grant would prove equally disastrous. Such funding cuts will cause substantive changes in program policies and regulations that will afflict those that need our support the most - children.

I urge you to hold firm to your resolution of last year in not allowing Title IV-B, foster care and adoption assistance, to be placed in a block grant. And I implore you to reject any further cuts in Title IV-B or Title XX Social Service Block Grant funding.

In conclusion, I quote Ronald B. Taylor, a staff writer from the "Los Angeles Times":

> "We need to recognizethat children, especially those who are disabled or neglected or abused, are a natural part of our society. We must learn to keep them with us where they can be nurtured, not shoved out of sight by the rich and powerful fighting for advantage at the public trough. We must remind the Reagan administration...that [it represents] the nation's children, too, and is obligated to establish a national children's policy, one that centers on support for the nurturing family, for that is where children have the best chance to thrive."

Thank you for allowing me to appear before you today.

Mr. STARK. Thank you all very much. I find myself in an unhappy position.

For a brief period of time, as you may remember, I had the privilege of chairing this subcommittee and the sadness is that we presided over an attempt to cut some $4 billion out of the budget in 1981. In as humane a way as we could, charged with the overwhelming popularity of the present administration, and the certainty that if we didn't it would be taken away from us on the floor, that proved to be true.

So we, with excellent help from the staff and a lot of input from many concerned citizens, such as yourself, we tried to orchestrate cuts in such a way as to hurt as few people as possible or at least be gentle as we could.

I think the disposition of this committee, whether you are legislating among people who are poor, disabled, distressed, disenfranchised, is never a happy choice and suffice to say there is never enough money.

My comments would be this, that the present Director of the Office of Management and Budget, and his ultimate superiors, we have said often, know the cost of everything and the value of nothing.

It is incomprehensible to me, when I argue about sending $55 million worth of excessive weapons to El Salvador to kill people, and they know it is going on, and I know it is going on, and you know it is going on, and then they talk to us about block grants which by any other name is just cost cutting.

I mean, I watched our good President when he was Governor of the State of California for a number of years posture and say I am cutting the welfare rolls; I am chasing the cheats off welfare and cutting out our State's expense. It was a lie. The democratic senate and the democratic assembly were raising taxes and raising bene-

fits and providing I think one of the most efficient and well-run human resources departments in the country, and he was out there saying I am cutting welfare.

Absolutely no relationship to the real world or the facts and he still said he did it, and the fact is he didn't. Those are numbers. That is not pejorative rhetoric; those are the facts. I don't know what to tell you. There is a meeting going on in the White House right now and they are arguing and the President refuses to join in.

He sends Mr. Baker to observe. He has said we cannot cut defense; we cannot raise taxes, and we cannot touch the third-year tax cut. I am not much of a mathematician, but I know they finally admitted that we have an $180 billion deficit in 1983 and running up to $240 billion in 1985.

How he believes that we can solve that entirely out of the $100 billion left in his budget for everything except defense and social security I don't know. I can't make $180 billion deficit go away when I have only got $100 billion for the whole Government to run.

I thought of introducing a bill to make the Department of Defense a block grant.

Mr. STARK. It would be interesting to see how the State of California would compete with the State of Washington for Boeing's work as opposed to McDonnell Douglas. The thoughts of seeing Jerry Brown as Chief of Staff of the Air Force and Hugh Carey as Chief of Staff of the Navy, if that is the way it worked out, that would be interesting.

But if they can do it in health and human services, why not the Pentagon? That is how this country started out, isn't it? When we were a Republic we had a variety of militia. If we want to go back to basics, we ought to go all of the way back.

I wish I could offer you more hope. I don't really know. I would ask each of you this, have you all had a chance to review Chairman Ford's legislation?

[Chorus of "yes."]

Mr. STARK. Would you like to add anything or comment on the bill he introduced, because I think that may be one or there may be one or two others before this committee. If you have any specific recommendations, changes, I would suggest that the record will be held open, probably for at least 5 days or a week or two. If you submit any recommendations it would be helpful to us and to our staff and we appreciate it.

I hope you can get all of the members of the Junior League across the Nation to, in addition to the nuclear freeze, to fight for children's legislation and make some sense out of AFDC.

They can be a potent force in our community. Thank you all for being with us today.

The next panel is composed of Charlotte Aladjen, chairperson of the National Governmental Affairs Committee, the Association for Retarded Citizens, and others.

Jane Yohalem—and please correct my pronounciation if you will—she is staff attorney for the Mental Health Law Project.

Eileen Sweeney, staff attorney for the National Senior Citizens Law Center, legislative counsel of Older Americans and the Gray Panthers.

Hilda Robinson, Government Affairs Committee, the National Mental Health Association.

James Gashel, director, Governmental Affairs, National Federation of the Blind.

Robert M. Freedman, staff attorney, Institute on Law and Rights of Older Adults.

I will ask you all just to start your testimony in the order in which you are listed on the witness sheet and in which I called your name and that will help our reporter.

Also I would say to all of you, without objection, your prepared statements will appear in their entirety. I would hope you summarize or highlight those points in your testimony which you feel are most urgent and your highlighted testimony as well as your prepared statements will appear.

If everyone is here, I would ask Ms. Aladjen to proceed.

STATEMENT OF CHARLOTTE ALADJEN, CHAIRPERSON, NATIONAL GOVERNMENTAL AFFAIRS COMMITTEE, ASSOCIATION FOR RETARDED CITIZENS; ALSO ON BEHALF OF AMERICAN COALITION OF CITIZENS WITH DISABILITIES; AMERICAN FOUNDATION FOR THE BLIND; EPILEPSY FOUNDATION OF AMERICA; NATIONAL ASSOCIATION OF PRIVATE RESIDENTIAL FACILITIES FOR THE MENTALLY RETARDED; NATIONAL EASTER SEAL SOCIETY; NATIONAL MENTAL HEALTH ASSOCIATION; NATIONAL MULTIPLE SCLEROSIS SOCIETY; NATIONAL SOCIETY FOR CHILDREN AND ADULTS WITH AUTISM; AND UNITED CEREBRAL PALSY ASSOCIATIONS, INC.

Ms. ALADJEM. Thank you, sir.

I am Charlotte Aladjem, chairperson of the governmental affairs committee of the Association for Retarded Citizens. I represent today 10 disability organizations all listed on the first page of our written testimony.

We strongly believe that the provision of a basic core of services to this country's disabled citizenry is a legitimate responsibility of the Federal Government. We have a deep and serious concern about this administration's policies toward the provision of human services.

Disabled people are trying to become independent, working members of our society. Policies which reduce or eliminate funding for programs which make this goal possible are short-sighted. Our organizations believe that the belt-tightening is necessary, but there should be equity and fairness in the distribution of our Federal dollars.

A summary of our testimony is as follows.

One, we oppose any further cuts in the social services program. Of all Federal programs providing direct benefits to handicapped persons, last year title XX received the largest reduction.

We know that already programs and services have been reduced or terminated.

Our organizations strongly support H.R. 5791 which increases title XX social service funds over the next 3 years. These increases are imperative if disabled persons are to survive in the community.

Without the needed services, disabled people will be left one option, that of unwarranted and costly institutionalization.

Two, we are strongly opposed to the administration's child welfare block grant which reduces the funding level by 39 percent to $380 million for fiscal year 1983.

Three, our organizations are opposed to the proposals by the administration that would reduce benefits for eligible beneficiaries under the supplemental security income program. Three of the proposals are particularly objectionable.

No. 1, changing the definition of disability to require a 24-month prognosis instead of 12 months. It has been estimated by Health and Human Services that this will save $45 million in fiscal year 1983 and it will affect 35,000 people.

No. 2, giving added emphasis to medical factors in determining whether an applicant for SSI is disabled. It has been estimated that this will save $75 million in fiscal year 1983, and it will affect 80,000 people.

No. 3, eliminating the initial $20 disregard of income for all new recipients coming on the SSI roll after January 1, 1983. It is estimated that this will save $75 million in fiscal year 1983 and it will affect 300,000 people.

Further, our organizations find that the continuing disability investigations process is eliminating severely disabled people from the roll. The next three witnesses will discuss this issue, and we endorse their comments.

Efforts to whittle away at the income of disabled persons with little or no earnings in order to save Federal dollars has reached a point of diminishing returns. Implementation of the three SSI proposals described will force many severely disabled people to discontinue residential and/or treatment programs and many disabled people will end up homeless and destitute, relegated to the wards of public institutions or to dependency on hard-pressed county and State relief rolls.

Lastly, we urge Congress to examine the entire Federal budget in its quest for solutions to our economic problems. Included in this examination should be a close look at the defense budget.

Thank you for your attention. We sincerely request your assistance in avoiding any further retreat from Federal responsibility for the provision of basic services and benefits necessary to the safety, well-being and development of our country's disabled citizens.

Thank you.

[The prepared statement and attachments follow:]

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STATEMENT ON BEHALF OF: AMERICAN COALITION OF CITIZENS WITH DISABILITIES; AMERICAN FOUNDATION FOR THE BLIND; ASSOCIATION FOR RETARDED CITIZENS; EPILEPSY FOUNDATION OF AMERICA; NATIONAL ASSOCIATION OF PRIVATE RESIDENTIAL FACILITIES FOR THE MENTALLY RETARDED; NATIONAL EASTER SEAL SOCIETY; NATIONAL MENTAL HEALTH ASSOCIATION; NATIONAL MULTIPLE SCLEROSIS SOCIETY; NATIONAL SOCIETY FOR CHILDREN AND ADULTS WITH AUTISM; AND UNITED CEREBRAL PALSY ASSOCIATIONS, INC.

SUMMARY

This testimony, on behalf of ten disability organizations, is based on one premise: that the provision of a basic core of services to America's disabled citizenry is a legitimate responsibility of the federal government.

We have a deep and serious concern about this Administration's policies toward the provision of human services. These policies result in lost opportunities for disabled people seeking to become independent, working members of our society. Reducing or eliminating funding for the very programs which make this goal possible is short-sighted.

We believe that if belt-tightening is necessary it should not be done indiscriminately nor should it be limited to domestic programs only. There should be equity and fairness in the distribution of our federal tax dollars. A summary of the major points in our testimony follows:

1. We vehemently oppose any further cuts in the Social Services program. Experience with the new block grant and its reduced funding level has demonstrated that disabled people and their organizations often are not equipped to compete for scarce funds and services at the state and local levels. Already, programs and services of all types have been severely reduced or

terminated due to the lack of social services dollars.

Of all the federal programs providing direct benefits to handicapped persons, it appears that Title XX received the largest reduction last year. This is extremely unfortunate since the philosophy of the social services program is the most compatible with the developmental model of services, i.e., services are flexible in type, non-medical in nature and can be individualized according to the client's needs.

Our organizations strongly support H.R. 5791, which increases Title XX Social Services funds over the next three fiscal years (pages 6 - 7).

2. We are strongly opposed to the Administration's Child Welfare block grant and its reduced funding level, i.e., $380 million for fiscal year 1983. The Adoption Assistance and Child Welfare Act of 1980, P.L. 96-272, was enacted with bipartisan support because of states' failure to accomplish needed reforms in their foster care systems. The Administration's proposal would signify a retreat from federal responsibility in this area, wiping out the benefits of the years of thoughtful consideration which went into P.L. 96-272 and resulting in new scandals involving abused and neglected children (pages 7 - 8).

3. Three of the Administration's proposals for the Supplemental Security Income (SSI) program are particularly offensive to disabled people and their organizations:

a. changing the definition of disability to

require a 24-month, rather than a 12-month prognosis;

b. giving added emphasis to medical factors in determining whether an applicant for SSI benefits is disabled; and

c. eliminating the initial $20 disregard of income for all new recipients coming on the rolls after January 1, 1983.

These proposals represent yet another effort to tighten up on the eligibility of disabled persons for disability benefits in a program which is already one of the toughest in the nation. Given the Administration's current performance relative to the Continuing Disability Investigations called for in the Social Security Disability Amendments of 1980, we believe that enactment of any of the above proposals will only result in the denial of SSI benefits to many additonal severely disabled persons with a genuine need for support. (See Attachment II.) We believe that efforts to whittle away at the income of disabled persons with little or no earnings in order to "save" federal dollars has reached a point of diminishing returns. The negative consequences of reducing or terminating severely disabled persons' basic income will far outweight any savings benefits there might be in the short run.

We support both H.R. 5509 which limits the rate at which overpayments of SSI benefits may be recovered through future

benefits and H.R. 5911 which excludes burial plots and burial insurance policies in determining an SSI applicant's resources (pages 8 - 11).

4. We urge Congress to examine the entire federal budget in its quest for solutions to our economic programs. Included in this examination should be a close scrutiny of the defense budget as well as proposals to adjust some of the tax cuts passed last year (page 5).

We believe it is time to relieve the poor, disabled and elderly of their role as victims in the fight for national security and a balanced budget. How can they continue to care that their country is safe if they are not themselves safe from their own country?

STATEMENT

Mr. Chairman and distinguished members of the Subcommittee:

Last year, in various testimonies before Congress, our organizations expressed concerns regarding the President's Program for Economic Recovery which called for a wholesale and indiscriminate consolidation of federal social programs, along with substantial funding reductions. We raised questions regarding block grants and described what we feared would be the outcome of such an approach to the delivery of basic human services.

The questions have now been answered and the outcome confirmed.

- In Columbus, Ohio, as a result of a $180,000 Title XX program reduction in their Handicapped Adult Services Program, 110 disabled adults have been terminated from service. These adults now are isolated in their residential setting with absolutely no daily or special day services.

- A developmental center in Indiana serving developmentally disabled children and adults has discontinued its summer camp which it has run for twelve years. The infant and toddler screening program, which screens for developmental lags in approximately 500 children each year is also being discontinued, as is the adult vacation and recreation program for 75 adults. Center staffing has been reduced and 11 percent of the clients have been terminated.

- A health clinic sprouted a crop of new signs this winter: "No more dental care. No eyeglasses. No free medicines. No lab work. No transportation. We can no longer pay for inpatient and outpatient care at Children's Hospital."

- In Erie, Pennsylvania, as a result of a Title XX cut, the United Cerebral Palsy Adult Day Care Program serving 36 persons with disabilities was closed.

- A nurse worries about a little girl whose Medicaid no longer pays for the drugs necessary to control her epileptic seizures.

- In Clarksville, Arkansas, a three year old retarded boy named Allen waits to leave the nursing home where he's lived since he was seven months old. His mother lives 200 miles away in West Helena. She has seen him once in two years.

  Recently the nursing home staff told his mother that Allen was ready to come home if he could attend the Phillips County School for Exceptional Children. But there is no room at the school because its budget has been reduced.

  It costs taxpayers $19,080 a year to help Allen in the nursing home. It would cost $3,500 a year for him to attend the school.

- On October 1, 1981, the State of Delaware ended its Title XX funding to the Community Legal Aid Society, Inc. (CLASI). The state had provided CLASI with approximately $67,000 per year since 1974.

- The mental retardation/developmentally disabled service providers (MR/DD) of Indiana are being surveyed to learn what, if anything, has happened to them as a result of last year's budget reductions. To date 25 provider agencies (almost 40 percent of all MR/DD providers) have responded. They report that without the budget reductions they would have been able to serve an additional 672 clients during this fiscal year.

  Under the current budget levels they will deny services to an additional 433 clients during fiscal year 1983. Thus, the total number of clients denied services over the two year period will equal 1,105.

- Reports from throughout the country describe a massive cumulative effect on long-term mentally disabled persons from the combination of reduced Medicaid, Federal mental health block grant, and Social Services funds, as well as cutbacks in eligibility for SSI and SSDI. A spot survey of community mental health centers shows centers reducing outpatient services, partial hospitalization services and prevention activities. Fees are being raised and non-revenue producing services cut back. One such center reports that long-term mentally ill patients "are suffering from multiple effects of cuts and having a harder time being functional at a minimally acceptable level in the community."

> Another center will cut outpatient services 20 percent and day treatment 10 percent this year. Still another reports that they have been forced into "providing less preventive services and are having to emphasize more service to self pay and insurance clients. The very dangerous outcome is less emphasis on the poor, and cost effective prevention service. These are options that we do not like and try to avoid, but are being pushed more and more in this direction for survival."

Examples such as the above are beginning to fill our country's newspapers and flood the offices of our national human services organizations. Currently several of our organizations are conducting surveys to gather precise details on the impacts of the block grants and budget cuts on programs serving disabled persons and on the lives of disabled individuals and their families. One such survey initiated by the United Cerebral Palsy Associations, Inc., relative to Title XX Social Services and Maternal and Child Health is attached (Attachment I).

Our testimony is based on one premise: that the provision of a basic core of services to America's disabled citizens is a legitimate responsibility of the federal government.

Our organizations support efforts to eliminate fraud and abuse, to streamline programs, and to avoid unnecessary, time consuming requirements and duplication. We made this clear in last year's testimonies. We even presented a letter to Senator Dole, at his request, in which we prioritized programs for disabled persons and offered suggestions for program modification or consolidation. Recently, we updated this letter and again communicated our recommendations to Senator Dole. The Administration, however, rather than targeting programs reputed to be

wasteful and abusive, has sought and continues to seek across-the-board reductions, harming the guilty and the innocent alike.

President Reagan has called for a new spirit of voluntarism within the private sector to help offset the budget reductions. He believes that private giving can "fill the gaps" left by the severe program terminations and budget cuts he proposes. All evidence is to the contrary. A study completed last fall by the Urban Institute for Independent Sector states that the Reagan economic program will cause a $27.272 billion loss of funding to health, welfare and arts organizations by 1984. The report estimates that an increase of 26 percent in private giving would be necessary by 1982 to fill the gap, and suggests that such an increase is not likely. In fact, an analysis of the new tax law indicates that the country's private charities may lose as much as $18 billion over the next four years because President Reagan's tax cuts give the wealthy less incentive to give.

Leaders of foundations, churches and businesses agree that private giving will not keep pace with the reductions in federal programs, particularly during downturns in the economy. According to these leaders the people who give - usually people who aren't wealthy and often people living on a fixed income - are only giving a portion, sometimes only half, of what they used to give (e.g., $5 instead of $10). They point out that when the income of people goes down, so does everything else. In addition, many businesses are being forced to lay off large numbers of employees and will fall short of giving what they gave in 1981.

Faced with the President's fiscal year 1983 budget our organizations are becoming cynical. We believe disabled persons have a right to live in the community, to be educated, to receive basic health care, and to work. We believe the federal government has an inherent responsibility to ensure these rights through the provision of basic human services. Yet this Administration continues to endorse a philosphy which is denying disabled people the opportunity to exercise their rights and become contributing members of our society.

The disabled and elderly are the hardest hit by the budget cuts. We are here asking your help in achieving equity and fairness in the distribution of our federal tax dollars. Our message is simple: if belt-tightening is necessary, it should not be done indiscriminately nor should it be limited to domestic programs only.

No responsible American wants to see an inadequate defense. But just as domestic programs can be guilty of waste and abuse, so too can defense programs. Yet, neither the fiscal year 1982 budget nor the budget proposed for fiscal year 1983 -- both of which include hefty increases in defense spending -- attack inefficiencies and waste in defense expenses, not even those expenses having no bearing on our national security. Our organizations are concerned about the deficit. However, we urge Congress to examine the entire federal budget in its quest for solutions to our economic problems. Included in this examination should be a close scrutiny of the defense budget as well as proposals to adjust some of the tax cuts passed last year.

SOCIAL SERVICES

We strongly oppose any further cuts in the Social Services program. Experience with the new block grant and its reduced funding level has demonstrated that disabled people and their organizations often are not equipped to compete for scarce funds and services at the state and local levels. Already, programs and services of all types have been severely reduced or terminated due to the lack of social services dollars.

Of all the federal programs providing direct benefits to handicapped persons, it appears that Title XX received the largest reduction last year. This is extremely unfortunate since the philosophy of the social services program is the most compatible with the developmental model of services, i.e., services are flexible in type, non-medical in nature and can be individualized according to the client's needs.

The typical financial support of community living arrangements for disabled persons is a combination of Supplemental Security Income (SSI), Housing and Urban Development (HUD) Section 8 Rent subsidies and social services dollars. Many disabled persons are currently without adequate services. Their day care, work activity, sheltered workshop, adult habilitative, counseling, personal assistance, transportation and/or other services, formerly funded through Title XX, are no longer available. For many disabled persons the adequate funding of social services becomes a critical factor if community living is to become or remain a viable option.

Our organizations were gratified when you, Representative Ford, introduced H.R. 5791, the Public Assistance Amendments of 1982. The increases for Title XX provided in this legislation are imperative if disabled persons and other vulnerable populations are to receive those services necessary for their development and in some cases their very survival in the community. To not provide these necessary services significantly increases the possibility that such persons and their families will be left with only one option -- an unfortunate option -- that of unwarranted and costly institutionalization.

CHILD WELFARE, FOSTER CARE, ADOPTION ASSISTANCE

Our organizations are adamantly opposed to the Administration's proposed Child Welfare block grant and its reduced funding level, i.e., $380 million for fiscal year 1983. This is less than current year expenditures for foster care alone. If enacted, the Child Welfare block grant would mean an end to P.L. 96-272, the Adoption Assistance and Child Welfare Act of 1980.

This law was enacted with strong bipartisan support in Congress. We believe that this support continues and urge the continuation of the child welfare, foster care and adoption assistance programs as detailed in P.L. 96-272. This legislation, like other legislation targeted for block grants by the Administration, was enacted because of states' failure to accomplish needed reforms in their foster care systems. This failure was recognized as a national scandal which required federal intervention. A retreat from federal responsibility in this area will

wipe out the benefits of the years of thoughtful consideration which went into P.L. 96-272 and result in new scandals involving abused and neglected children.

The Administration has delayed effective implementation of P.L. 96-272 and has not yet published implementing regulations. We believe the Department of Health and Human Services is not carrying out its responsibilities under the law and are persisting in administering the program as if it were a block grant. We strongly support the Subcommittee's request to the General Accounting Office to undertake a study regarding the implementation of P.L. 96-272, and urge you to request that the Department of Health and Human Services expedite the publication of the implementing regulations.

SUPPLEMENTAL SECURITY INCOME

The major changes proposed for the Supplemental Security Income (SSI) program in the President's fiscal year 1983 budget represent yet another effort to tighten up on the eligibility of disabled persons for disability benefits in a program which is already one of the toughest in the nation. Our organizations find the following three proposals particularly objectionable:

1. changing the definition of disability to require a 24-month, rather than a 12-month prognosis (estimated savings of $45 million in fiscal year 1983);

2. giving added emphasis to medical factors in determining whether an applicant for SSI benefits is disabled (estimated savings of $75 million in fiscal year 1983); and

3. eliminating the initial $20 disregard of income for all new recipients coming on the rolls after January 1, 1983 (estimated savings of $15 million in fiscal year 1983).

The Department of Health and Human Services has estimated that these three proposals will affect 35,000, 80,000 and 300,000 individuals respectively. Given the Administration's current performance relative to the Continuing Disability Investigations called for in the Social Security Disability Amendments of 1980, we believe that enactment of any of the above proposals will only result in the denial of SSI benefits to many additional severely disabled persons with a genuine need for support. Attachment II summarizes our concerns regarding the Administration's current approach to disability review and eligibility and our recommendations.

Disability determinations based primarily on medical factors would have especially serious consequences for populations such as the severely visually-impaired who are not legally blind, mentally retarded persons and those suffering from a mental illness. Medical evaluations and criteria alone do not reflect the extent to which these conditions are debilitating for an individual. Social, developmental and vocational factors must also be assessed.

It should be pointed out that the proposal to eliminate the $20 disregard of income affects the earnings of those working beneficiaries who have no other source of income. The basic earnings disregard under current law for these beneficiaries is $85, i.e., $65 for earned income to which the $20 is added if no other income

is available to the individual. In our opinion, enactment of this provision of the Administration's proposal will only reinstate a disincentive to work thus reversing Congressional policy in this area which has focussed on the elimination of work disincentives under the SSI program.

Our organizations want to express our support of two bills introduced by members of the Subcommittee. First, we are very supportive of H.R. 5509 which protects the benefits of SSI recipients who are charged with overpayments. We also support H.R. 5911 which excludes burial plots and burial insurance as countable resources.

The disabled people in our country are not a strong lobbying force. Many severely disabled persons do not vote. Public acceptance of disabled people is far from ideal, and knowledge regarding the potential of disabled persons is lacking. Consequently, programs and benefits for disabled people at all levels of government are often the first to be reduced or terminated when dollars are scarce. We ask that you carefully assess the potential impact of each of the SSI proposals contained in the President's fisal year 1983 budget. We also urge your immediate opposition to the three proposals cited above.

In addition, we would like to express to the Subcommittee our deep concern regarding the Department of Health and Human Services implementation of the modified rehabilitation program for SSI and Social Security Disability Insurance (SSDI) recipients. It is our opinion that if the October 14, 1981, proposed rules are finalized they will result in a program that is either 1) a

cumbersome, wasteful effort on the part of both the Social Security Administration and state rehabilitation agencies or 2) a total elimination of the program from the effects of 1) above or by states avoiding the program altogether. The fact that the proposed rules do not provide for an advance payment mechanism as is provided in the law is a major problem. We ask your support and help in securing regulations which allow for advance payments and consequently a meaningful, workable rehabilitation program.

Our testimony is meant to express a deep and serious concern about this Administration's policies toward the provision of human services. We believe that there are national problems for which there must be a national responsibility. The continuing erosion of life support systems which impact upon many persons with severe disabilities is endangering the physical and mental well-being of this significant population in our country. We sincerely request your assistance in avoiding any further retreat from the federal responsibility for the provision of basic services and benefits necessary to the safety, well-being and development of our country's disabled citizenry.

ATTACHMENT I

Word from Washington

ANALYSIS

Volume Eleven Number Two

In Depth Resource Material
Prepared for Affiliates Of
United Cerebral Palsy Associations, Inc.

UCPA AFFILIATES REPORT TITLE XX
SOCIAL SERVICES AND MATERNAL AND CHILD
HEALTH BUDGET REDUCTIONS

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This paper has been prepared at the
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by

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February, 1982

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DOCUMENT'S PURPOSE

This paper has been developed in response to a January 22, 1982 letter from Representative John D. Dingell (MI), Chairman, House Committee on Energy and Commerce. The Committee is gathering information "on the effects of the Reagan budget cuts on the programs under our jurisdiction" in preparation of the report they must file to the House Budget Committee.

In his letter to UCPA, Chairman Dingell stated that "I am writing to you because you and your associates were so helpful to the Committee last year when we were trying to understand the effects of each and every program cut and restructuring. During the next two weeks I hope you will be able to provide the Committee staff with updated information. What effect have the program and budget cuts had on services and people? What effect would further reductions have on programs and people? Are there any special cases, histories, or events that illustrate clearly how the budget cuts are being felt?"

THE F.Y. 1982-1983 FEDERAL BUDGET

In terms of the major federal programs of highest priority interest to UCPA, most of these programs were protected by the Congress in fiscal year 1982.

The Administration had proposed the block granting of P.L. 94-142, the "Education for All Handicapped Children Act," and had recommended funding reductions of roughly 30% from the 1981 level. By P.L. 97-35, the Budget Reconciliation Act, Congress extended P.L. 94-142 for several years as a categorical program. And by P.L. 97-92, the F.Y. 1982 Continuing Resolution, P.L. 94-142 appropriations were actually increased over 1981 for 1982. Of course the Administration has proposed a substantial rescission in these 1982 levels but Congress has not yet accepted this proposal.

Likewise, in P.L. 97-35 the Congress rejected the Administration's block grant proposals regarding state grant programs of Vocational Rehabilitation, Independent Living, and Developmental Disabilities. And P.L. 97-92 increased the 1982 VR funding level and held constant the IL and DD levels. Congress will have to once again reinforce these decisions as the Administration seeks 1982 rescissions.

The Administration also sought an arbitrary "cap" or ceiling on Medicaid expenditures in FY 1982. Again, the Congress through P.L. 97-35 retained the entitlement feature of Medicaid, rejected the cap proposal, and enacted higher state matching rates. Though matching rates were increased, because of the efforts of House Subcommittee on Health and the Environment Chairman Henry A. Waxman (CA) and Mr. Dingell, P.L. 97-35 also contained a new "waiver" provision program allowing noninstitutional community-based services under Medicaid at state option. As of this date, nine states have submitted waiver requests and two states have received application approval.

So five major programs of UCPA interest--P.L. 94-142 Education, $931 million; VR, $863 million; IL, $17.280 million; DD, $60 million; and Medicaid, $17.2 billion--were largely protected in FY 1982 (unless last minute rescission decisions are made).

However, two service areas of UCPA priority did not survive in as strong a condition. The Congress rejected the Administration's proposals to block grant both the Title XX Social Services and Maternal and Child Health services programs but major revisions were made in both programs. Regarding Title XX, state matching requirements were eliminated and the services, day care set aside, training, and administration functions were consolidated in what is now referred to as the Social Services mini-block grant. Likewise, seven previous categorical programs, including Crippled Children's Services, Genetic Diseases Program, and SSI Disabled Children's Program were consolidated into a new MCH block grant program. So the immediate focus of UCPA budget reduction concern in the human services areas (keeping income assistance and research areas separate) is with Title XX and MCH. The financial condition of these two programs follow:

Program	FY 1981	FY 1982	President's Proposed FY 1983 Budget
Title XX Social Services	$2.9 billion	$2.4 billion	$1.974 billion
Maternal and Child Health Block Grant	$447.6 million	$347.5 million	$1.000 billion
a) Women, Infant, and Children (WIC) nutrition program	$927 million	$934.1 million	0 to be consolidated with MCH
b) MCH-WIC totals	$1.375 billion	$1.282 billion	$1.000 billion

UCPA AFFILIATE APPROACH

In fiscal year 1980, UCPA's 250 affiliates had a combined operating income of $109.758 million, of which $70.457 million was derived from state and local government grants and contracts. UCPA does not operate a centralized and computerized affiliate data gathering system so financial records are frequently outdated. Records of the UCPA Washington office documented 62 affiliates receiving Title XX, CCS, or MCH funding. In response to Representative Dingell's request, a telephone survey of these 62 affiliates was developed by Merna Williamson, Research Assistant, UCPA Governmental Activities Office.

Of the 62 affiliates, 3 no longer operate any of these three funded programs and one affiliate was unreachable despite several attempts. In two other affiliates, the executive directors were not available and no one else in the affiliate could provide the necessary information. Thus this report includes 56 affiliates and 59 funded programs as several affiliates operate programs funded by more than one of these three programs.

TITLE XX AND MCH BUDGET IMPACT

Ms. Williamson's telephone survey revealed the following results:

- Twenty affiliate programs (34% of the survey) experienced program reductions; of these, 18 were Title XX reductions, 1 was CCS, and 1 was MCH.

- These 20 programs experienced Title XX, MCH, and CCS dollar reductions of at least $658,131. Roughly $127,000 of these reductions have been replaced with other public and private funding.

- Thirty-nine affiliate programs (66% of the survey), including 34 Title XX programs and 5 CCS programs have experienced no program reductions. However, many of these affiliates are expecting reductions by the end of their state's fiscal year and few of these affiliates are able to serve the needs of persons with disabilities as they would like even with present funding. Though programs have not received actual dollar reductions, because of inflation there have been real dollar reductions.

- Program reductions range from 2% in Pittsburgh in their Handicapped Adult Recreation and Social Program and in Utah in their Handicapped Summer Camping Program to 50% in Cedar Rapids where, as a result, their Handicapped Adult Day Care Program was terminated. Lexington, KY UCPA also experienced a 50% cutback which has resulted in severe curtailment of their training of parents and paraprofessionals in the care of their handicapped children.

- In Columbus, OH, as a result of a $180,000 Title XX program reduction in their Handicapped Adult Services Program, 110 disabled adults have been terminated from service. These adults now are isolated in their residential setting with absolutely no daily or special day services.

- In Erie, Pennsylvania, as a result of a Title XX cut, the UCP Adult Day Care Program serving 36 persons with disabilities was closed.

- In Illinois, work by the Human Services Override Coalition, of which UCP of Illinois is an active member, convinced the Governor's office to restore $2.4 million in Title XX program reductions. In April 1981, Governor Thompson proposed a four year program, involving 25% annual cuts, to phase-out all Title XX contracts involving donated funds. These programs will now stay operational at least through FY 1983.

- In Maine, the state's administration has declared their intent not to reduce current human services in spite of substantial reductions.

- In San Antonio, TX, where UCPA has been able to document cost differentials of $2,400 per month institutional costs and $500 per month community placement costs, UCPA's independent living program will receive a Title XX increase.

- For the 20 affiliate programs being reduced, most are reducing administrative costs, attempting new private fund raising initiatives which have not yet been successful, and increasing staff-client ratios while reducing the level of client services.

OTHER BUDGET OBSERVATIONS

- Though the Developmental Disabilities federal budget has technically only received a 4% reduction, as specified in P.L. 97-92, state DD programs are being terminated. For example, in Pennsylvania, the DD council funded in FY 1981 13 DD-CLA (Developmental Disabilities-Community Living Arrangements) programs. In FY 1982 only 3 of these independent living programs are operating and they will be terminated at the end of this fiscal year. The DD Council's expectation that these 13 programs would be permanently financed by the state was dissolved when Pennsylvania received word of the P.L. 97-35 federal reductions. Some of these program participants are now being reinstitutionalized.

- Many affiliates reported substantial reductions in CETA (Comprehensive Employment and Training Act) personnel though this was not an area of survey questioning.

SURVEY RESULTS

Specific program information listed by affiliate follows:

TELEPHONE SURVEY OF AFFILIATES RECEIVING TITLE XX, CCS OR MCH FUNDS
by Merna Williamson--February 17, 1982

STATE/AFFILIATE	Pro-gram	Cutbacks Yes	Cutbacks No	Cut Amount	Cut Date	Services Affected	% of Budget Before	% of Budget After	Cutbacks Have Been Restored by Funding Sources
ALABAMA									
Gadsden	XX		X						
Huntsville	CCS		X						
Sheffield	CCS		X						
Birmingham	CCS		X						
"	XX	X					45%		MH Dept. made up cut
Anniston	CCS	X		$3,000		Crippled Children's	9%	6%	No
"	XX		X						
ARIZONA									
Phoenix	XX	X		$26,000		Transp., DD Therapy, Group-Home Training, All services. This prgm cut 25%	22%	16%	Some state funds
CALIFORNIA									
San Diego	XX		X						
CONNECTICUT									
Hartford	XX		X						
FLORIDA (big cuts expected)									
Orlando	XX		X				5%		
Panama City	XX		X						
Lakeland	XX		X				75%		
Miami	XX		X				75%		
Ft. Lauderdale	XX		X				30%		
Tallahassee	XX		X	--7½% increase--					
GEORGIA									
Rome	XX	X					25%	25%	No
Macon	XX	X		$500	1/1/82	Day care for disabled infants, children & adults.	25%	25%	No, Cut services
ILLINOIS									
Decatur	XX	X			7/1/81	Family support-Advocacy	40%		All funds restored
Joliet	XX	X			"	" " "			" " "

STATE/AFFILIATE	Program	Cutback Yes	Cutback No	Cut Amount	Cut Date	Services Affected	% of Budget Before	% of Budget After	Restoration
IOWA Cedar Rapids	XX	X		$50,000	7/1/81	Disabled Adult Day Care	50%	0	No--working on it.
KANSAS Wichita	XX		X						
KENTUCKY Louisville Lexington	MCH XX	X X		$27,000 $100,000	7/1/81 7/1/81	Early childhood intervention--Infant development Paraprofession & parent training to care for handicapped children	14% 100%	8½% 50%	Special local grants Local grants & endowments
MAINE Augusta Bangor	XX XX CCS		X X X				10% 20%		
MARYLAND Baltimore	XX		X						
MINNESOTA Minneapolis	XX		X				8%		
MISSOURI St. Joseph	XX		X						
NEW YORK New York State (NY City) Albany Geneva Niagara Falls Jamaica Utica Purchase Buffalo	XX XX CCS XX XX XX XX XX		X X X X X X X X			Pre-school Handicapped Adult Day	Small% 100%		

STATE/AFFILIATE	Pro-gram	Cutbacks Yes	Cutbacks No	Cut Amount	Cut Date	Services Affected	% of Budget Before	% of Budget After	Restoration
NORTH CAROLINA									
Raleigh	XX	X		$30,000	7/1/81	Day Care	27%	23%	No
OHIO									Cut services
Columbus	XX	X		$180,000	2/81 10/81	Handicapped Adult Service Center	100%	100%	No
Akron	XX	X		$100,000	7/1/81	Cut Administration and Service Level	25%	20%	No--have applied for 10 grants
Cleveland	XX		X						
Cincinnati	XX	X		$92,000	7/1/81	Adult Work Activity	25%	13%	Yes--Community Serv.
Dayton	XX		X			Adult Day Care	33%		
OREGON	XX		X						
Portland									
PENNSYLVANIA									
Lewiston	XX		X			Handicapped Counsel.	25%		
Lancaster	XX	X		$ 9,000	7/1/81	Adult DD program	25%	13%	No--cut staff
Scranton	XX		X			Adult Activities	75%		
Erie	XX	X				Adult Day Care			No
Pittsburgh	XX	X		$13,631	7/1/81	Social Activities & Recreation for Severely disabled adults.	15%	13%	No
Pottsville	XX		X			Activities for adults	--Sm	all--	
Johnstown	XX	X			7/1/81	DD Day Care (58 children).	50%	30%	No. Now a fee-for-service program and only able to open 4 days per week instead of the previous 5.
SOUTH DAKOTA									
Sioux Falls	XX		X				4%		
TEXAS									
San Antonio	XX		X						
Dallas	XX		X			Adult Day Care	16%		
Austin	XX		X			Adult programs	50%		
UTAH									
Salt Lake City	XX	X		$14,000	7/1/81	Summer Camp for Handicapped Chdrn.	22%	20%	No--prgms already cut 40% before
WASHINGTON									
Tacoma	XX	X		$13,000	7/1/81	Workshop, DD Activ.	33%	18%	No

CONCLUSION

Service programs for persons with disabilities, if UCPA is characteristic of the disability field, have frequently been protected by many federal, state, and local government legislative and executive agencies in comparison to other human services constituencies. The most vulnerable programs serving the disabled appear to be day community programs for both adults and children funded through Title XX Social Services contracts.

This survey did not include the loss of personnel assisted by the CETA program. CETA programs were reduced from $7.143 billion in FY 1981 to $3.003 billion in FY 1982. The President has proposed a further reduction in FY 1983 to $2.387 billion and CETA'S replacement with a new employment and training assistance block grant to the states. UCPA affiliates with CETA contracts are encouraged to document their experiences with the UCPA Washington office.

In a paper prepared for the UCPA governmental activities committee ("Congregate Housing Services Program: A Review of P.L. 95-557," February 1982), UCPA Professional Services Program Department Consultants Rachel Warren and George Gray documented several nonprofit organization recipients of HUD Section 202 housing construction loans who were postponing development because of the lack of available services financing. This could be the beginning of a slowdown or termination to deinstitutionalization efforts in several states.

UCPA affiliates are strongly encouraged to send their government grant and contract experiences to the UCPA Washington office. Only by accurate and complete documentation can we demonstrate to federal policy makers and analysts the real impact of federal budget reductions.

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ATTACHMENT II

ARBITRARY REDUCTIONS OF DISABILITY ROLLS

Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) provide essential support to 4.5 million Americans who are so severely disabled that they cannot work. 1/

In March 1981, the Social Security Administration (SSA) began an accelerated review of the claims of people receiving these benefits. In an excess of fervor to reduce federal expenditures, Reagan Administration officials have created a process that is illegally leaving thousands of severely disabled Americans without any source of income for food and housing. Many are then relegated to the wards of public mental institutions or to dependency on county and state relief rolls.

Periodic review of disability cases is necessary, of course, to confirm that recipients continue to meet eligibility requirements and remain unable to work. However, the undersigned organizations contend that the Administration's current approach is contrary to both the letter and the spirit of the careful review that was mandated by Congress in the Social Security Disability Amendments of 1980.

In fiscal year 1982, 520,000 recipients of disability benefits will undergo review, compared to 400,000 in FY 1981 and 200,000 in FY 1980. The Administration plans to save $200 million in 1982 by drastic reductions in disability rolls based upon these reviews. 2/ State agencies, charged with the initial reviews, are under tremendous pressure, without adequate time to gear up and without enough staff to handle the increased load. As a result, reviews are often perfunctory, without adequate medical evidence and with insufficient attention to individual problems, as documented by the attached case examples.

These difficulties are compounded by pressure on administrative law judges and on Social Security personnel to quickly produce a substantial reduction in disability rolls consistent with Reagan Administration policy. For example, SSA has targeted for review the 65 administrative law judges who have the highest rate of findings that continue disability benefits. Only findings in favor of beneficiaries are being reviewed, not decisions terminating benefits. 3/ Similarly,

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1/ In addition, 1 million children and 500,000 spouses receive SSDI as dependents. Monthly payments to SSDI recipients average $413.57; SSI recipients receive $264.70.

2/ Social Security Administration, Improvement of the Administration of the Disability Program - Continuing Disability Investigations (CDI); March 11, 1981.

3/ January 7, 1982 memorandum from Louis B. Hays, Associate Commissioner of Office of Hearings and Appeals, SSA, to All Administrative Law Judges (January 7, 1982, Memorandum).

SSA is routinely reviewing 35% of decisions of state agency personnel in favor of beneficiaries, while only 5-7% of benefit terminations are reviewed. 4/

The review procedures are especially unfair to the mentally disabled. When a case is under review, the state agency mails the disability recipient a three-page form seeking detailed information about his or her medical condition and employability. If this form is not completed and returned within 35 days after being mailed, benefits are often terminated. The Mental Health Law Project, a Washington D.C.-based public-interest organization, has received reports from states across the country that, without help, many mentally disabled clients have trouble coping with the paperwork. Many are unable to understand that their only income is being threatened. They neglect to return the forms or complete them inadequately and, as a direct result of their disabilities, lose their monthly support. The problem is compounded by the SSA's practice of conducting these reviews without a face-to-face interview.

Although denial of disability benefits can be appealed, the appeals process does not adequately protect disabled Americans and their families. First, Social Security Disability Insurance recipients lose all benefits shortly after receiving a termination notice -- including Medicare, to which they are entitled after two years of disability. 5/ During the time their appeal is pending, which can be five months to a year, they receive no benefits. 6/ Even if benefits are then reinstated -- and that often takes several months after a favorable decision -- many severely disabled people will have already lost their homes or will have been forced to discontinue residential or treatment programs.

Moreover, an appeal requires presentation of medical and other evidence before the appropriate agency or before an administrative law judge or a court. Cutbacks in legal services and social service agencies have made it very difficult for disability recipients to obtain legal or other help. Again, the difficulties are multiplied for mentally

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4/ Interview with Jean Hinckley, General Counsel's Office, SSA.

5/ Supplemental Security recipients, however, are entitled to receive income pending appeal. But, with some exceptions, these benefits must be repaid if the appeal is lost.

6/ SSA has told a federal court in Kentucky that, because of the increase in workload based on the continuing disability review process, it cannot meet the 165-day (5½-month) time limit proposed by SSA in August 1980 and approved by the court. SSA is seeking a modification of that court order, freeing the agency from any specified time limit. Blankenship v. Secretary, HHS, 517 F. Supp. 77, 522 F. Supp. 618 (W.D. Ky 1981); see also January 7, 1982, Memorandum.

disabled recipients, who may not know where to turn for assistance and who, because of their chronic condition, often are utterly unable to present their own cases.

The Reagan Administration has attempted to justify the increase in benefit terminations as an economy. This is misguided. The human cost to disabled people and their families and the financial burden imposed on state, county and city governments far outstrip any savings realized by such harsh measures. For example, loss of disability benefits often results in costly rehospitalization of serious mentally disabled people who are unable to work and who lack sufficient income to live in the community. As two staff members of the New York Psychiatric Institute recently noted in a letter published in The New York Times, "This hospitalization costs the city, the state and the Federal Government $100 to $500 a day -- surely an odd way to save the approximately $15 a day that it costs to maintain a disabled person outside of a hospital with Federal disability payments." 7/ Other beneficiaries end up homeless and destitute and are forced to rely on hard-pressed state and local relief programs.

The organizations listed below believe that this nation must not thus abandon its disabled citizens. We therefore urge pursuit of the following recommendations:

1. Congressional hearings, including field hearings, should be conducted as soon as possible. These hearings should address the full array of issues in the disability review process.

2. The General Accounting Office (GAO) should conduct an investigation of the Social Security Administration's practices relative to the continuing disability investigations. The study should examine the immediate and long-range impact of current SSA practices on beneficiaries and on federal, state and local governments.

3. Beneficiaries must not be terminated prior to a full and careful review of the merits of their case by appropriately qualified professionals.

4. Mentally disabled beneficiaries and those who are homebound must be provided with personal assistance (and home visits if necessary) throughout the review process.

6/ Francine Cournos, M.D., and Richard Herman, "A Federal 'Shell Game' on Mental Disability," February 11, 1982.

Association for Retarded Citizens
Epilepsy Foundation of America
Gray Panthers, represented by the
National Senior Citizens Law Center
Mental Health Law Project
National Alliance for the Mentally Ill
National Association of Private Residential Facilities for the
Mentally Retarded
National Association of Rehabilitation Facilities
National Easter Seal Society
National Mental Health Association
National Multiple Sclerosis Society
National Society for Children and Adults with Autism
Save Our Security Coalition

At its February 26, meeting, the SOS coalition's executive committee passed a resolution endorsing the above recommendations in their entirety. This coalition consists of nearly 100 organizations, including the AFL-CIO, National Council of Senior Citizens, National Education Association, Paralyzed Veterans of America, United Auto Workers, National Retired Teachers Association/American Association of Retired Persons and the American Federation of State, County and Municipal Employees.

For additional information, contact:

Jane Yohalem, Mental Health Law Project
2021 L Street, N.W.
Washington, D.C. 20036
(202) 467-5730

Myrl Weinberg, Association for Retarded Citizens of the United States
(202) 785-3388

The Mental Health Law Project (MHLP) compiled the following case examples. Pseudonyms have been used to disguise individuals' identity. For additional information and for referral to advocates representing disability recipients in these and other states, telephone Jane Yohalem or Lee Carty at MHLP, (202) 467-5730, or write to MHLP, 2021 L Street N.W., Suite 800, Washington D.C. 20036.

Arizona

Jim Hill is terminally ill with hystocytic lymphoma, a form of cancer. He began receiving disability benefits in 1979, after 16 years of work. His benefits were terminated in August 1981, based upon a finding that he had improved enough to work. Mr. Hill appealed and is still awaiting action on his appeal. He is surviving in the meantime on $156 per month from the state welfare department.

Roger Morris has a heart condition and is paralyzed on his right side, following a stroke. The stroke has also impaired his vision and his ability to speak. Mr. Morris' file was reviewed in October 1981. In November, the SSA declared him able to work and terminated both his benefits and his Medicare coverage. To support their two children, his wife now works seven days a week. Their telephone has been disconnected, they are behind on the rent and they have no medical insurance to pay for the care Mr. Morris desperately needs.

California

Larry Wallace has both a serious mental disability and chronic back pain. He is constantly depressed and unable to concentrate, hears ringing in his ears and suffers from delusions and paranoid feelings. He spends his time at home, isolated from virtually all social contact and is unable to understand and execute even simple instructions. His doctor has concluded that Mr. Wallace poses a substantial risk of suicide. Despite this severe illness, Social Security officials have informed Mr. Wallace that he is able to return to work. He received his last disability payment in January. Since then his wife and six children have been without support.

Anne Reed had a kidney transplant several years ago and must take steriod drugs to avoid rejection of the transplanted kidney. This medication produces back and joint problems, fungus infections and frequent bladder infections. She also suffers from cataracts. The consulting physician Social Security officials sent her to see found Mrs. Reed totally disabled. Nevertheless, she received a termination notice with the "impairment not severe" box checked.

Georgia

Charles Farley is nearly blind (only 21% of normal vision) and suffers from a severe back injury. He has had five operations to

treat a herniated disc and is in tremendous pain. His condition is complicated by a dependency he has developed on pain-relieving drugs. Mr. Farley has been hospitalized 24 times in the past year. The consultant physician Social Security officials sent him to see failed to evaluate either his drug problem or his pain. Based on this doctor's evaluation, he was removed from the disability rolls in October 1981. His 16-year-old daughter left school and went to work full-time to support the family, but was fired recently when her employer discovered that she was not yet 18.

William Powell, an ex-military policeman, has extensive brain damage as a result of a gunshot wound, received when he intervened while off duty to break up a fight. The wound left him partially paralyzed on his right side and affected his vision and his memory. Mr. Powell's IQ has dropped to 57 -- low enough to classify him as permanently disabled. He also has a problem with excessive alcohol use. Social Security officials sent Mr. Powell to a consultant for a medical examination. During the 10-minute examination, Mr. Powell was not even asked to remove his clothes, which would have revealed substantial atrophy of his muscles on his right side. His benefits were terminated, based upon the results of this examination.

Indiana

Susan Blue suffers from severe mental illness. She has been hospitalized more than 10 times in the last 15 years. Ms. Blue is able to live in the community with the assistance of community mental health center staff. Someone must visit her at least once each day to make sure that she remembers to buy food. Ms. Blue has periodically tried to work but has always been fired because of her psychotic behavior on the job. Despite medical evidence that she is severely disabled, Social Security officials notified her last month that in their opinion she could return to work. She has received her last benefits check.

Samuel Rodgers has chronic schizophrenia. Without day-to-day supervision, he often forgets to eat. Despite this severe disability, Social Security officials informed him last year that, in their opinion, he was no longer disabled and could return to work. Mr. Rodgers appealed this determination, but without assistance in preparing his claim, he lost his appeal last December. He is surviving with the help of a local mental health center program.

Kansas

Daniel Cole suffers from a severe mental illness, diagnosed as paranoid schizophrenia and requiring treatment with large doses of the psychotropic drug Prolixin. Mr. Cole has been hospitalized at least six times for his illness. Before becoming disabled, he had been a truck driver. In January 1981, he tried to return to work, but his medication made him too drowsy to drive and, when he

stopped taking the drug, he became disoriented and damaged one of the company's trucks. He had to stop working. The state vocational rehabilitation agency has refused to admit Mr. Cole to its program, finding him too disabled to work. However, Social Security officials terminated his eligibility in November 1981, on grounds that he had regained his ability to work the previous January, as evidenced by his brief and unsuccessful period of re-employment. No current information had been requested, nor was Mr. Cole's treating physician contacted. In February 1982, an administrative law judge found that Mr. Cole had been improperly dropped from the disability rolls.

Cynthia Johnson has severe mental disability that leaves her confused and unable to cope with stress. This, along with limited education, restricts her ability to perform even basic functions. For example, she is unable to keep track of the days of the week and confuses their order. Although the reports of her treating psychiatrist indicate she is disabled, she received a termination notice in December 1981. With the help of a legal services lawyer she is appealing the termination.

Louisiana

Paula Doyle has sickle cell anemia, requiring monthly blood transfusions, thrombophlebitis and ulcers. She also suffers from a back injury, the result of an automobile accident. Because of her sickle cell anemia, the surgery needed to correct some of her other medical prolems cannot be performed without endangering her life. Her doctor's assessment is that she is utterly unable to work. Nevertheless, Miss Doyle received a notice that her benefits had been terminated in September 1981. This notice of termination was her first communication from Social Security officials. She has not been asked for any information concerning her current condition and her doctor has never been contacted for an evaluation.

Bruce Brown is 11 years old. He has sickle cell anemia, complicated by an extremely serious nervous disorder. Bruce's condition makes it hard for him to take care of even his most basic physical needs. He receives monthly injections and has been placed in a special education class. Bruce's disability benefits were terminated in November 1981, without prior notice. Neither Bruce's parents nor his doctor were asked for information about his condition, nor was he sent to a consulting physician.

Massachusetts

Valery Small is a severely brain-damaged 16-year-old. Over the last few years, she learned to dress and wash herself and is in a special education class in the Boston public schools. In November 1981, Valery's family received a notice from Social Security officials stating that "based on [Valery's] work history, training and education, she is no longer disabled." With the help of a legal services attorney, Valery has appealed the termination.

Charles Lane has spent most of his life in a mental institution. Recently returned to the community, he lives in a rooming house and is able to get along only with substantial assistance. He remains hostile and has great difficulty relating to people. Moreover, Mr. Lane has never learned to read. On October 13, 1981, he received a letter from Social Security officials stating, "Because of your education, work experience and our evaluation of you, we find you ready to return to work." Mr. Lane's disability benefits were terminated on November 30, 1981. A legal services lawyer is helping Mr. Lane appeal his termination.

Minnesota

Hilda Christensen is mildly mentally retarded, with what is diagnosed as a "persistent paranoid personality pattern." She worked as a food handler and a home health aide, but was fired from every job. The local rehabilitation center evaluated her as not employable. Social Security officials, however, ignoring the overlay of mental illness on her mid-60s IQ, found that because she could dress herself and understand simple directions, she was not disabled. Her benefits were terminated and she is now existing on state general assistance money.

Catherine Mooney hallucinated throughout the examination by a Social Security doctor. Nevertheless, she was declared employable, even though, the report said, her "difficulty with hallucinations" is not helped by medication. Her benefits were terminated and she is now in the psychiatric ward of the local hospital.

Madge Green, 51, has been hospitalized twice in the preceding year for heart problems. Her breathing was impaired and she had arthritis. On July 23, 1981, she got a notice terminating her eligibility for disability benefits. When her appeal was heard on October 22, she was so obviously disabled that the administrative law judge stopped the hearing.

Missouri

Joan Young has both epilepsy and a severe mental disorder. She spent her childhood in a state mental hospital and, although now living in the community, is periodically hospitalized in a regional treatment center. Ms. Young was evaluated by a consulting psychiatrist hired by the Social Security Administration, who found her unable to relate to a supervisor or to other employees and to follow instructions, and therefore unable to work. Nonetheless, Ms. Young received a termination notice in April 1981. On the day her appeal was heard, she was too disoriented to find the building where the hearing was to be held. Carrying the name of her lawyer on a slip of paper, she eventually wandered into a legal services office. Other staff located the lawyer and assisted her in getting to the hearing. The administrative law judge found her "obviously disabled."

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Mary Lewis, 61, fell and badly fractured her leg. Her doctor believes that the injury will probably never heal. She is in a leg brace and is given intensive physical therapy several hours each day. The injury has made it nearly impossible for her to leave her house. When she does go out, she must be carried into and out of the house. Yet her disability benefits were terminated in October 1981.

New York

A report prepared by New York City Council President Carol Bellamy, entitled Passing the Buck: Federal Efforts to Abandon the Mentally Disabled (January 1982), includes the following case histories:

Alan Palmer suffers from a severe psychiatric illness. A few days after being notified by Social Security officials that his benefits were being terminated and that he was "employable," Mr. Palmer was hospitalized as delusional and a danger to others. The director of the South Beach State Psychiatric Hospital, where Mr. Palmer was hospitalized, emphasized that Mr. Palmer's hospitalization resulted from "the stress of having his livelihood cut off." In the hospital's view, Mr. Palmer cannot work.

Jane Rollen suffers from chronic schizophrenia. She has been hospitalized several times for her psychiatric condition. Until January 1981, she was homeless and slept in the streets of New York City. She now lives in a residential program. Ms. Rollen also suffers from severe back pain caused by an injury. She attributes her back pain to possession by demons. In November 1981, Social Security officials found Ms. Rollen employable. She is appealing this determination with the help of counselors at her residential program.

Ohio

Gerard Linsey, 33, is mildly mentally retarded and brain-impaired. He also has severe psychological problems. Both Mr. Lindsey's doctors and the consultative psychologist he was sent to see by the SSA agreed that he was disabled. They concluded that he functioned well below the average and was unable to follow even simple directions. Nevertheless, Mr. Linsey received an SSA termination notice stating, "You can relate well to others and your memory is intact. Therefore you can work." The administrative law judge who reviewed Mr. Linsey's case found in the record no support whatsoever for the termination and reinstated Mr. Linsey's benefits.

William Brown has chronic pancreatis, peripheral vascular disease, liver disease, esophogeal disease, anemia, tuberculosis and chronic dementia. Yet the SSA notified him that, in the opinion of Social Security officials, he was able to go back to work as a manual laborer.

Carol Jones has a severe manic-depressive illness for which she has been hospitalized twice. Her psychiatrist's report indicates that she is isolated and withdrawn. Her illness induces anxiety so severe that her vision is blurred, she experiences frequent daily episodes of lightheadedness and she is unable to concentrate. The psychiatrist's report concludes that she cannot perform the most basic work activities -- she cannot relate to fellow workers, has difficulty understanding and following instructions, cannot maintain attention long enough to perform simple tasks and is unable to deal with even minimal stress. Not surprisingly, Ms. Jones failed to file an appeal within the proper time limit. Her disability benefits were terminated. Ms. Jones subsequently obtained representation by a legal services attorney and is now seeking reinstatement of benefits.

Pennsylvania

Fred Rowe is a chronic schizophrenic, paranoid type. To control his illness, he takes high doses of psychotropic medication. His condition is complicated by a spastic disorder which causes him to fling his arms around and a sleep disorder which leaves him drowsy much of the time, although he sleeps 16 to 18 hours a day. Mr. Rowe's 6'5" height, aggressive appearance and flailing arms present a threatening aspect to a potential employer. However, based simply on a review of his file, Mr. Rowe's disability benefits were terminated in November 1981. He was not interviewed by a Social Security official, nor was he sent to see a consultant. As a result of his loss of disability benefits, Mr. Rowe's condition worsened and he has been hospitalized. He is pursuing an appeal.

Bernice Davis, 57, worked as a housekeeper until 1976. She has painful arthritis and a nervous disorder that manifests itself in anxiety so extreme that she lives as a recluse. Except for doctors' appointments, she rarely leaves her house. Last fall, Social Security officials found Mrs. Davis no longer disabled and ready to return to work. They made this determination without ever asking her treating physician for a report on her condition. Her benefits were terminated in November 1981. Mrs. Davis is seeking state-funded general assistance to survive while awaiting a decision on appeal.

Tennessee

William Thomas suffers from severe mental illness. When he received a three-page form from SSA asking for information about his illness and medical treatment, he scrawled disturbed, accusatory notes in the margins and returned the form to Social Security officials. Eight months later, Mr. Thomas received a letter notifying him that his disability benefits had been terminated because of his failure to complete the Social Security form. Further, he was told he would be required to repay benefits he had received in the eight months between the time he received the form and the date of his termination notice. Mr. Thomas is now institutionalized at Moccasin Bend State

Hospital. Thanks to the help of hospital social workers, he is back on the disability rolls.

Bruce White has multiple health problems: severe back pain from a slipped disk, ulcers, kidney problems, tuberculosis, a substantial hearing loss and anxiety. Both his physician and the consultant Social Security officials sent him to see agreed that he was so severely disabled that he could not do even sedentary work. Despite the extensive medical evidence in his file documenting his disability, he was dropped from the disability rolls in July 1981. In early December an administrative law judge ordered him reinstated. Nearly three months later, Mr. White is still awaiting his first benefits check.

Texas

Helen Pope is mentally retarded. She has been participating in a United Way agency's sheltered workshop program. Near the end of 1980, Miss Pope attempted to move to a Goodwill Industries workshop. After a month's trial, it was clear she could not manage the job, and she was sent back to the sheltered program. In March 1981, however, she received a benefits-termination notice, giving her 10 days to appeal. She didn't understand the notice and failed to file an appeal, whereupon her SSI benefits were halted for 10 months. With the assistance of a legal services attorney, she was finally reinstated.

Sidney Bell suffers from chronic schizophrenia, which is treated with frequent injections of Prolixin, an antipsychotic medication. Mr. Bell's intelligence tests at a low level. He rarely speaks and replies to questions with one-word answers. He lives in a boarding house. A Social Security consulting psychiatrist confirmed both the diagnosis of schizophrenia and Mr. Bell's poor adaptive and functional skills, but his benefits were terminated in March 1981. Thirteen months later, he still awaits a decision on his appeal.

Mr. STARK. Thank you very much.

STATEMENT OF JANE YOHALEM, STAFF ATTORNEY, MENTAL HEALTH LAW PROJECT

Ms. YOHALEM. My name is Jane Yohalem, and I am a staff attorney at the Mental Health Law Project.

The project is a not-for-profit public interest organization that advocates for the legal rights of disabled persons, particularly the mentally ill, and developmentally disabled. On behalf of the project, I appreciate the opportunity to appear before this subcommittee.

I want to express the Mental Health Law Project's concern about the accelerated review which began in March 1981 of claims of people who depend on supplemental security income and social security disability insurance. During the past year we have received calls and letters from disabled people and from lawyers and treatment professionals throughout the country, case after case of truly disabled people, people who obviously meet the requirements of both the law and the regulations, yet are being dropped from the rolls.

The human cost of this is staggering. People have lost their homes, have had to drop out of needed treatment, have ended up

on State or county relief. For mentally disabled people, the problem has been even more extreme.

Many are unable to withstand the stress of losing their income and have had to be rehospitalized, at tremendous costs to State budgets.

A look at the statistics reveals that this is a nationwide problem. In the continuing disability investigations nationwide, 47.5 percent of reviewed recipients are being dropped from the disability rolls according to the Social Security Administration. In New York State, the termination rate is over 50 percent. In New Mexico, it is 70 percent. Something is clearly wrong.

Together with the Save Our Security Coalition and the 11 national disability organizations, we have prepared a report which analyzes the practices which are leading to these arbitrary and illegal cutoffs of disabled people who cannot work and who desperately need these benefits. The report includes 29 examples from 14 different States. I would like to note that these examples are typical of the hundreds that have come to our attention.

That report is attached to my written testimony for inclusion in the record.

Practices that we have found occurring across the country include, one, perfunctory reviews: Very often the termination notice is the first notice the disabled person receives that their case is being reviewed. Often their own physician is not contacted for information about their disability.

Two, reliance on inadequate medical evidence: We have examples of examinations by consultant physicians lasting 10 minutes. Moreover, the use of volume providers of medical services has increased in order to handle the increased workload.

Three, the use of criteria irrelevant to employability: This again is an area that affects mentally disabled people in particular. People who cannot follow simple instructions, who are so disoriented that they could not possibly manage to get to work every day are receiving termination notices.

Four, review and appeal procedures are beyond the capacity of many mentally disabled people: They receive an initial complicated three-page form which many are just too disoriented to fill out. The appeals process is even more complex.

Let me give you just one example from the many cited in the Coalition's report of the truly disabled people who are clearly eligible yet being cut off the rolls.

Paula Doyle is a Louisiana woman who suffers from sickle cell anemia, thrombophlebitis, ulcers, and a back injury, and who, in the opinion of her treating physician, is completely unable to work. Mrs. Doyle received a termination notice. That termination letter was the first notice that she received from the Social Security Administration that her case was being reviewed at all. Her physician was never contacted.

These arbitrary and illegal terminations are disrupting people's lives, yet the fact that they are happening is not surprising. Agency officials are under tremendous pressure to save money by reducing disability rolls. The number of cases reviewed this year has doubled to 520,000. Yet, no time has been provided for the

agencies to gear up or to hire enough staff to handle this increased workload.

Although the process had started with social security disability insurance recipients, SSI recipients are affected, too. The scheduled reviews of SSI recipients subject them to the same process. New applications to the SSI rolls are being subjected to the same cursory review and the same inappropriate criteria, and unless radical changes occur very quickly in this process, SSI recipients will routinely be included in the continuing disability review investigation itself. We are already getting phone calls from people who have simply gotten swept up into this system, even though they are SSI recipients and not SSDI recipients.

The administration proposes to modify the SSI program to further cut costs and also the Congress has before it a bill, H.R. 5700, amending both SSI and social security disability insurance which was recently marked up by the Subcommittee on Social Security.

Neither proposal would remedy the problems I am discussing here of massive numbers of unjustified and illegal terminations occurring throughout the country.

Indeed, many of the suggested changes in the law would aggravate the unjustices and impose further hardship on truly disabled people.

Let me first talk very briefly about H.R. 5700. That bill creates an expanded reconsideration hearing to be held by the social security agency personnel prior to the current appeals level. The record would then be closed after that reconsideration and no evidentiary hearing before an administrative law judge would be allowed.

The reason, however, for the current high rate of reversal by administrative law judges is that so many errors are being made at the agency level. Giving the agencies that are making those errors more responsibility for the appeals process will simply compound the problem.

In our view, neutral and independent hearing officers are essential to insure that the law is followed. Moreover, closing the evidentiary record after reconsideration would impose a burden on the majority of disabled people who do not ordinarily seek legal help at that state of the process.

H.R. 5700 also attempts to establish uniformity in the decision-making process. It would allow the Social Security Administration to make the program operations manual system [POMS] or other formal polices binding on all levels, including the administrative law judge's level.

Allowing reliance on these informal policy statements will aggravate an existing problem that the Social Security Administration has been basing terminations from the disability rolls on criteria that are inconsistent with the law and regulations. Uniformity is important but it ought to be achieved by requiring officials to follow the law.

The administration's budget proposal seeks new ways to save money at the expense of disabled people who are dependent for their very survival on SSI or Social Security disability insurance. It substantially restricts eligibility by, one, requiring that disability be expected to last 24 months rather than 12, and two, by eliminat-

ing age, education, and work experience as factors to be considered in evaluating disability.

Rather than changing the law to make already stringent disability standards even tougher, I urge this subcommittee to explore in-depth the problems faced by people who are caught up in the continuing disability review process, or who are trying to get on the disability rolls initially. I think you will find that the current criteria and procedures already exclude many truly disabled people from the rolls. New legislation should remedy these problems, not impose more roadblocks at the expense of the most helpless and vulnerable people in the Nation. Thank you.

[The prepared statement and additional material follow:]

STATEMENT OF JANE YOHALEM, STAFF ATTORNEY, MENTAL HEALTH LAW PROJECT

My name is Jane Yohalem and I am a staff attorney at the Mental Health Law Project. The Project is a not-for-profit public-interest organization that advocates for the legal rights of disabled persons, particularly the mentally ill and the developmentally disabled. On behalf of the Project, I appreciate this opportunity to appear before this subcommittee.

The Project is concerned about the effects of an accelerated review which began in March 1981, of the claims of people who depend on Supplemental Security Income and Social Security Disability Insurance. We are equally concerned about the steadily increasing number of people denied SSI and Disability Insurance benefits when they initially apply for them.

During the past year, we have received calls and letters from disabled people throughout the country whose disability benefits were abruptly terminated. Lawyers and treatment professionals have come to us also, describing case after case of clients with severe mental and physical disabilities who nevertheless lost their essential disability benefits.

We quickly realized that this was a nationwide problem -- that throughout the country truly disabled people who meet the requirements of disability law and its regulations are illegally being dropped from the rolls. People who are unable to do work of any sort are left without any income. Some have lost their homes; others have had to withdraw from needed treatment programs.

Many end up on state- or county-funded general relief programs (in states where those exist). The mentally ill are the hardest hit. The stress of losing their benefits often triggers a crisis in their illness, which may in turn lead to hospitalization -- at much greater cost to the taxpayer than the amount of the lost benefits. The press has reported several suicides.

A look at the statistics also reveals a nationwide problem. A Social Security Administration study cited by GAO in its March 1981 report found that 11% of a sample of undiaried recipients could be expected to be ineligible. If diaried persons (those scheduled for later review) were included in the sample, the figure rose to 20%. However, in the continuing disability investigations, nationwide over 47.5% of reviewed recipients are being dropped from the disability rolls, according to the Social Security Administration. In New York State, the termination rate is over 50%; in New Mexico, it is 70%. Something is wrong.

Together with the Save Our Security Coalition and 11 national organizations representing disabled people, the Mental Health Law Project analyzed the practices that have led to these arbitrary cutoffs and prepared a short report, which I have submitted to the Subcommittee for its record of these hearings. The report summarizes 29 cases from 14 states. These examples of people wrongfully denied benefits typify the hundreds of cases that have come to the attention of the Mental Health Law Project, the Save Our Security Coalition and the other organizations endorsing the report.

The case examples illustrate several kinds of practices by both state and federal Social Security officials which have cut eligible people off the disability rolls, contrary to the provisions of the law.

These practices include:

* Perfunctory review. In many cases, the first word a recipient receives of a review is a termination notice. Often, the person's treating physician is not contacted.

* Another common failing is relying upon inadequate medical evidence. Examinations by consultant physicians often last less than 10 minutes. To deal with the flood of case reviews, Social Security officials are relying more and more on volume medical providers.
* Often review and appeal procedures are beyond the capacity of mentally disabled people. Mentally disabled persons often neglect to return the Social Security forms or complete them inadequately. Then, as a direct result of their disabilities, they lose their only support.
* Reviewing officials also base terminations on criteria irrelevant to employability. Mentally disabled people are particularly vulnerable to being dropped from the disability rolls by Social Security officials who conclude that because the client can dress himself or understand simple instructions, he must be able to work.

These practices create tremendous hardship for disabled people. Take, for example, the case of Paula Doyle, a Louisiana woman with sickle cell anemia, thrombophlebitis, ulcers and a back injury. (Her name and the names of other disabled people I will describe are fictitious, to protect their privacy.) The termination notice she received late last September was her first word of any review. Social Security officials had not contacted Mrs. Dolye or her physician, who says she is utterly unable to work.

William Thomas of Tennessee, who is mentally ill, received a standard form asking about his illness and treatment. He scrawled disturbed notes in the margin and sent it back. Eight months later Mr. Thomas' benefits were discontinued -- retroactively, with a demand for repayment -- because of his "failure to complete" the Social Security form. Mr. Thomas is now institutionalized at Moccasin Bend State Hospital.

While such arbitrary and improper terminations are egregious, they are not surprising. Social Security officials in state agencies are under tremendous pressure to save money by reducing disability rolls. Moreover, the number of reviews they are required to complete has more than doubled -- 520,000 cases this year, nationwide. State agencies have not had time to gear up; they have not hired nearly enough staff to handle the increased workload.

Although the formal continuing disability review process started with review of Social Security Disability Insurance recipients, it would be a mistake to assume that SSI recipients are unaffected. First, scheduled reviews of SSI recipients subject them to the same process and the same abuses of the law and regulations being applied to Disability Insurance recipients. Their files end up in the same offices, where they are reviewed by the same overworked claims examiners and treated the same way as the files of Disability Insurance recipients. Second, new applicants for SSI and for Disability Insurance programs are also subjected to the same cursory review and the same inappropriate criteria that are applied in the continuing disability review process. Denials of initial applications for SSI are above the 70-percent level. Many clients who need SSI to survive outside a hospital are failing to get onto the disability rolls. They continue to be hospitalized at tremendous cost to the state or they end up unnecessarily in nursing homes, again often at a high cost to both the state and the federal government.

Finally, unless radical changes are quickly made in both process and substantive criteria, SSI recipients will soon be involved directly in the continuing disability review process itself. In fact, although official policy is to review Disability Insurance recipients first, we have already received many calls from disabled recipients of SSI who have been dropped from the rolls through the continuing disability review process. Some of these people had received a

small amount of Social Security Disability Insurance, supplemented by SSI benefits; others were just caught up in the sweeping review under way throughout the country.

The Administration proposes to modify the SSI program to further cut costs and the Congress has before it a bill, HR 5700, amending both SSI and Social Security Disability Insurance (recently marked up by the Subcommittee on Social Security). Neither proposal would remedy the problem -- the massive numbers of unjustified and illegal terminations occurring throughout the country. Indeed, many of the suggested changes in the law would aggravate the injustice and impose further hardship on truly disabled people.

Let me talk first about some of the provisions of HR 5700, a bill shortly to be considered by the Committee on Ways and Means. HR 5700 would create an expanded reconsideration hearing to be held by state agency personnel prior to the filing of an appeal. The record would then be closed at the reconsideration level, eliminating evidentiary hearings before administrative law judges. Yet the reason for the current high rate of reversal by administrative law judges is that so many errors are made at the agency level. Giving the agencies that are making those errors more responsibility for the appeals process will simply compound the problem. In our view, neutral and independent hearing officers are essential to insure that the law is followed. Moreover, closing the evidentiary record after reconsideration would impose a burden on the majority of disabled people, who do not ordinarily seek legal help at this stage of the process. By increasing the burden on the beneficiary to prepare an adequate record, this provision will aggravate the difficulties that already confront those least able to represent themselves -- the mentally disabled.

HR 5700 also attempts to establish uniformity in the decisionmaking process by making the Program Operations Manual System (POMS) binding on all levels,

including the administrative law judges. Allowing reliance on the POMS will aggravate an existing problem: that Social Security officials base many terminations on criteria that are inconsistent with the law and regulations. Uniformity of decisionmaking criteria is indeed important, but the criteria should be those set out in the law and the regulations. The use of informal criteria like the POMS, which are not subject to public comment and review, increases the probability of error.

Other mandates of HR 5700, such as the four-month adjustment period, the vocational rehabilitation program and the limitation on recovering overpayments, are laudable provisions that will help cushion loss of benefits for people who have in fact recovered and are able to return to work. But these provisions will not solve the problems I have just identified. The truly disabled people who have been wrongfully terminated from the rolls are not capable of returning to work, even with a vocational rehabilitation program. Four months of additional benefits can do little but postpone the inevitable crisis.

The Administration's budget proposal seeks new ways to save money at the expense of disabled people who are dependent for their very survival on SSI. It substantially restricts eligibility by (1) requiring that the disability be expected to last 24 months rather than 12, and (2) by eliminating age, education and work experience as factors to be considered in evaluating disability. Rather than changing the law to make already-stringent disability standards even tougher, I urge this subcommittee to explore in depth the problems faced by people who are caught up in the continuing disability review process or who are trying to get on the disability rolls initially. I think you will find that current criteria and procedures already exclude many truly disabled people from the rolls. New legislation should remedy these problems, not impose more

roadblocks at the expense of the most helpless and vulnerable people in the nation.

I would like to conclude by thanking the subcommittee for this opportunity to present our views.

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ARBITRARY REDUCTIONS OF DISABILITY ROLLS

Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) provide essential support to 4.5 million Americans who are so severely disabled that they cannot work. 1/

In March 1981, the Social Security Administration (SSA) began an accelerated review of the claims of people receiving these benefits. In an excess of fervor to reduce federal expenditures, Reagan Administration officials have created a process that is illegally leaving thousands of severely disabled Americans without any source of income for food and housing. Many are then relegated to the wards of public mental institutions or to dependency on county and state relief rolls.

Periodic review of disability cases is necessary, of course, to confirm that recipients continue to meet eligibility requirements and remain unable to work. However, the undersigned organizations contend that the Administration's current approach is contrary to both the letter and the spirit of the careful review that was mandated by Congress in the Social Security Disability Amendments of 1980.

In fiscal year 1982, 520,000 recipients of disability benefits will undergo review, compared to 400,000 in FY 1981 and 200,000 in FY 1980. The Administration plans to save $200 million in 1982 by drastic reductions in disability rolls based upon these reviews. 2/ State agencies, charged with the initial reviews, are under tremendous pressure, without adequate time to gear up and without enough staff to handle the increased load. As a result, reviews are often perfunctory, without adequate medical evidence and with insufficient attention to individual problems, as documented by the attached case examples.

These difficulties are compounded by pressure on administrative law judges and on Social Security personnel to quickly produce a substantial reduction in disability rolls consistent with Reagan Administration policy. For example, SSA has targeted for review the 65 administrative law judges who have the highest rate of findings that continue disability benefits. Only findings in favor of beneficiaries are being reviewed, not decisions terminating benefits. 3/ Similarly,

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1/ In addition, 1 million children and 500,000 spouses receive SSDI as dependents. Monthly payments to SSDI recipients average $413.57; SSI recipients receive $264.70.

2/ Social Security Administration, Improvement of the Administration of the Disability Program - Continuing Disability Investigations (CDI); March 11, 1981.

3/ January 7, 1982 memorandum from Louis B. Hays, Associate Commissioner of Office of Hearings and Appeals, SSA, to All Administrative Law Judges (January 7, 1982, Memorandum).

SSA is routinely reviewing 35% of decisions of state agency personnel in favor of beneficiaries, while only 5-7% of benefit terminations are reviewed. 4/

The review procedures are especially unfair to the mentally disabled. When a case is under review, the state agency mails the disability recipient a three-page form seeking detailed information about his or her medical condition and employability. If this form is not completed and returned within 35 days after being mailed, benefits are often terminated. The Mental Health Law Project, a Washington D.C.-based public-interest organization, has received reports from states across the country that, without help, many mentally disabled clients have trouble coping with the paperwork. Many are unable to understand that their only income is being threatened. They neglect to return the forms or complete them inadequately and, as a direct result of their disabilities, lose their monthly support. The problem is compounded by the SSA's practice of conducting these reviews without a face-to-face interview.

Although denial of disability benefits can be appealed, the appeals process does not adequately protect disabled Americans and their families. First, Social Security Disability Insurance recipients lose all benefits shortly after receiving a termination notice -- including Medicare, to which they are entitled after two years of disability. 5/ During the time their appeal is pending, which can be five months to a year, they receive no benefits. 6/ Even if benefits are then reinstated -- and that often takes several months after a favorable decision -- many severely disabled people will have already lost their homes or will have been forced to discontinue residential or treatment programs.

Moreover, an appeal requires presentation of medical and other evidence before the appropriate agency or before an administrative law judge or a court. Cutbacks in legal services and social service agencies have made it very difficult for disability recipients to obtain legal or other help. Again, the difficulties are multiplied for mentally

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4/ Interview with Jean Hinckley, General Counsel's Office, SSA.

5/ Supplemental Security recipients, however, are entitled to receive income pending appeal. But, with some exceptions, these benefits must be repaid if the appeal is lost.

6/ SSA has told a federal court in Kentucky that, because of the increase in workload based on the continuing disability review process, it cannot meet the 165-day (5½-month) time limit proposed by SSA in August 1980 and approved by the court. SSA is seeking a modification of that court order, freeing the agency from any specified time limit. Blankenship v. Secretary, HHS, 517 F. Supp. 77, 522 F. Supp. 618 (W.D. Ky 1981); see also January 7, 1982, Memorandum.

disabled recipients, who may not know where to turn for assistance and who, because of their chronic condition, often are utterly unable to present their own cases.

The Reagan Administration has attempted to justify the increase in benefit terminations as an economy. This is misguided. The human cost to disabled people and their families and the financial burden imposed on state, county and city governments far outstrip any savings realized by such harsh measures. For example, loss of disability benefits often results in costly rehospitalization of serious mentally disabled people who are unable to work and who lack sufficient income to live in the community. As two staff members of the New York Psychiatric Institute recently noted in a letter published in The New York Times, "This hospitalization costs the city, the state and the Federal Government $100 to $500 a day -- surely an odd way to save the approximately $15 a day that it costs to maintain a disabled person outside of a hospital with Federal disability payments." 7/ Other beneficiaries end up homeless and destitute and are forced to rely on hard-pressed state and local relief programs.

The organizations listed below believe that this nation must not thus abandon its disabled citizens. We therefore urge pursuit of the following recommendations:

1. Congressional hearings, including field hearings, should be conducted as soon as possible. These hearings should address the full array of issues in the disability review process.

2. The General Accounting Office (GAO) should conduct an investigation of the Social Security Administration's practices relative to the continuing disability investigations. The study should examine the immediate and long-range impact of current SSA practices on beneficiaries and on federal, state and local governments.

3. Beneficiaries must not be terminated prior to a full and careful review of the merits of their case by appropriately qualified professionals.

4. Mentally disabled beneficiaries and those who are homebound must be provided with personal assistance (and home visits if necessary) throughout the review process.

6/ Francine Cournos, M.D., and Richard Herman, "A Federal 'Shell Game' on Mental Disability," February 11, 1982.

Association for Retarded Citizens
Epilepsy Foundation of America
Gray Panthers, represented by the
National Senior Citizens Law Center
Mental Health Law Project
National Alliance for the Mentally Ill
National Association of Private Residential Facilities for the Mentally Retarded
National Association of Rehabilitation Facilities
National Easter Seal Society
National Mental Health Association
National Multiple Sclerosis Society
National Society for Children and Adults with Autism
Save Our Security Coalition

At its February 26, meeting, the SOS coalition's executive committee passed a resolution endorsing the above recommendations in their entirety. This coalition consists of nearly 100 organizations, including the AFL-CIO, National Council of Senior Citizens, National Education Association, Paralyzed Veterans of America, United Auto Workers, National Retired Teachers Association/American Association of Retired Persons and the American Federation of State, County and Municipal Employees.

For additional information, contact:

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(202) 467-5730

Myrl Weinberg, Association for Retarded Citizens of the United States
(202) 785-3388

The Mental Health Law Project (MHLP) compiled the following case examples. Pseudonyms have been used to disguise individuals' identity. For additional information and for referral to advocates representing disability recipients in these and other states, telephone Jane Yohalem or Lee Carty at MHLP, (202) 467-5730, or write to MHLP, 2021 L Street N.W., Suite 800, Washington D.C. 20036.

Arizona

Jim Hill is terminally ill with hystocytic lymphoma, a form of cancer. He began receiving disability benefits in 1979, after 16 years of work. His benefits were terminated in August 1981, based upon a finding that he had improved enough to work. Mr. Hill appealed and is still awaiting action on his appeal. He is surviving in the meantime on $156 per month from the state welfare department.

Roger Morris has a heart condition and is paralyzed on his right side, following a stroke. The stroke has also impaired his vision and his ability to speak. Mr. Morris' file was reviewed in October 1981. In November, the SSA declared him able to work and terminated both his benefits and his Medicare coverage. To support their two children, his wife now works seven days a week. Their telephone has been disconnected, they are behind on the rent and they have no medical insurance to pay for the care Mr. Morris desperately needs.

California

Larry Wallace has both a serious mental disability and chronic back pain. He is constantly depressed and unable to concentrate, hears ringing in his ears and suffers from delusions and paranoid feelings. He spends his time at home, isolated from virtually all social contact and is unable to understand and execute even simple instructions. His doctor has concluded that Mr. Wallace poses a substantial risk of suicide. Despite this severe illness, Social Security officials have informed Mr. Wallace that he is able to return to work. He received his last disability payment in January. Since then his wife and six children have been without support.

Anne Reed had a kidney transplant several years ago and must take steriod drugs to avoid rejection of the transplanted kidney. This medication produces back and joint problems, fungus infections and frequent bladder infections. She also suffers from cataracts. The consulting physician Social Security officials sent her to see found Mrs. Reed totally disabled. Nevertheless, she received a termination notice with the "impairment not severe" box checked.

Georgia

Charles Farley is nearly blind (only 21% of normal vision) and suffers from a severe back injury. He has had five operations to

treat a herniated disc and is in tremendous pain. His condition is complicated by a dependency he has developed on pain-relieving drugs. Mr. Farley has been hospitalized 24 times in the past year. The consultant physician Social Security officials sent him to see failed to evaluate either his drug problem or his pain. Based on this doctor's evaluation, he was removed from the disability rolls in October 1981. His 16-year-old daughter left school and went to work full-time to support the family, but was fired recently when her employer discovered that she was not yet 18.

William Powell, an ex-military policeman, has extensive brain damage as a result of a gunshot wound, received when he intervened while off duty to break up a fight. The wound left him partially paralyzed on his right side and affected his vision and his memory. Mr. Powell's IQ has dropped to 57 -- low enough to classify him as permanently disabled. He also has a problem with excessive alcohol use. Social Security officials sent Mr. Powell to a consultant for a medical examination. During the 10-minute examination, Mr. Powell was not even asked to remove his clothes, which would have revealed substantial atrophy of his muscles on his right side. His benefits were terminated, based upon the results of this examination.

Indiana

Susan Blue suffers from severe mental illness. She has been hospitalized more than 10 times in the last 15 years. Ms. Blue is able to live in the community with the assistance of community mental health center staff. Someone must visit her at least once each day to make sure that she remembers to buy food. Ms. Blue has periodically tried to work but has always been fired because of her psychotic behavior on the job. Despite medical evidence that she is severely disabled, Social Security officials notified her last month that in their opinion she could return to work. She has received her last benefits check.

Samuel Rodgers has chronic schizophrenia. Without day-to-day supervision, he often forgets to eat. Despite this severe disability, Social Security officials informed him last year that, in their opinion, he was no longer disabled and could return to work. Mr. Rodgers appealed this determination, but without assistance in preparing his claim, he lost his appeal last December. He is surviving with the help of a local mental health center program.

Kansas

Daniel Cole suffers from a severe mental illness, diagnosed as paranoid schizophrenia and requiring treatment with large doses of the psychotropic drug Prolixin. Mr. Cole has been hospitalized at least six times for his illness. Before becoming disabled, he had been a truck driver. In January 1981, he tried to return to work, but his medication made him too drowsy to drive and, when he

stopped taking the drug, he became disoriented and damaged one of the company's trucks. He had to stop working. The state vocational rehabilitation agency has refused to admit Mr. Cole to its program, finding him too disabled to work. However, Social Security officials terminated his eligibility in November 1981, on grounds that he had regained his ability to work the previous January, as evidenced by his brief and unsuccessful period of re-employment. No current information had been requested, nor was Mr. Cole's treating physician contacted. In February 1982, an administrative law judge found that Mr. Cole had been improperly dropped from the disability rolls.

Cynthia Johnson has severe mental disability that leaves her confused and unable to cope with stress. This, along with limited education, restricts her ability to perform even basic functions. For example, she is unable to keep track of the days of the week and confuses their order. Although the reports of her treating psychiatrist indicate she is disabled, she received a termination notice in December 1981. With the help of a legal services lawyer she is appealing the termination.

Louisiana

Paula Doyle has sickle cell anemia, requiring monthly blood transfusions, thrombophlebitis and ulcers. She also suffers from a back injury, the result of an automobile accident. Because of her sickle cell anemia, the surgery needed to correct some of her other medical prolems cannot be performed without endangering her life. Her doctor's assessment is that she is utterly unable to work. Nevertheless, Miss Doyle received a notice that her benefits had been terminated in September 1981. This notice of termination was her first communication from Social Security officials. She has not been asked for any information concerning her current condition and her doctor has never been contacted for an evaluation.

Bruce Brown is 11 years old. He has sickle cell anemia, complicated by an extremely serious nervous disorder. Bruce's condition makes it hard for him to take care of even his most basic physical needs. He receives monthly injections and has been placed in a special education class. Bruce's disability benefits were terminated in November 1981, without prior notice. Neither Bruce's parents nor his doctor were asked for information about his condition, nor was he sent to a consulting physician.

Massachusetts

Valery Small is a severely brain-damaged 16-year-old. Over the last few years, she learned to dress and wash herself and is in a special education class in the Boston public schools. In November 1981, Valery's family received a notice from Social Security officials stating that "based on [Valery's] work history, training and education, she is no longer disabled." With the help of a legal services attorney, Valery has appealed the termination.

Charles Lane has spent most of his life in a mental institution. Recently returned to the community, he lives in a rooming house and is able to get along only with substantial assistance. He remains hostile and has great difficulty relating to people. Moreover, Mr. Lane has never learned to read. On October 13, 1981, he received a letter from Social Security officials stating, "Because of your education, work experience and our evaluation of you, we find you ready to return to work." Mr. Lane's disability benefits were terminated on November 30, 1981. A legal services lawyer is helping Mr. Lane appeal his termination.

Minnesota

Hilda Christensen is mildly mentally retarded, with what is diagnosed as a "persistent paranoid personality pattern." She worked as a food handler and a home health aide, but was fired from every job. The local rehabilitation center evaluated her as not employable. Social Security officials, however, ignoring the overlay of mental illness on her mid-60s IQ, found that because she could dress herself and understand simple directions, she was not disabled. Her benefits were terminated and she is now existing on state general assistance money.

Catherine Mooney hallucinated throughout the examination by a Social Security doctor. Nevertheless, she was declared employable, even though, the report said, her "difficulty with hallucinations" is not helped by medication. Her benefits were terminated and she is now in the psychiatric ward of the local hospital.

Madge Green, 51, has been hospitalized twice in the preceding year for heart problems. Her breathing was impaired and she had arthritis. On July 23, 1981, she got a notice terminating her eligibility for disability benefits. When her appeal was heard on October 22, she was so obviously disabled that the administrative law judge stopped the hearing.

Missouri

Joan Young has both epilepsy and a severe mental disorder. She spent her childhood in a state mental hospital and, although now living in the community, is periodically hospitalized in a regional treatment center. Ms. Young was evaluated by a consulting psychiatrist hired by the Social Security Administration, who found her unable to relate to a supervisor or to other employees and to follow instructions, and therefore unable to work. Nonetheless, Ms. Young received a termination notice in April 1981. On the day her appeal was heard, she was too disoriented to find the building where the hearing was to be held. Carrying the name of her lawyer on a slip of paper, she eventually wandered into a legal services office. Other staff located the lawyer and assisted her in getting to the hearing. The administrative law judge found her "obviously disabled."

Mary Lewis, 61, fell and badly fractured her leg. Her doctor believes that the injury will probably never heal. She is in a leg brace and is given intensive physical therapy several hours each day. The injury has made it nearly impossible for her to leave her house. When she does go out, she must be carried into and out of the house. Yet her disability benefits were terminated in October 1981.

New York

A report prepared by New York City Council President Carol Bellamy, entitled Passing the Buck: Federal Efforts to Abandon the Mentally Disabled (January 1982), includes the following case histories:

Alan Palmer suffers from a severe psychiatric illness. A few days after being notified by Social Security officials that his benefits were being terminated and that he was "employable," Mr. Palmer was hospitalized as delusional and a danger to others. The director of the South Beach State Psychiatric Hospital, where Mr. Palmer was hospitalized, emphasized that Mr. Palmer's hospitalization resulted from "the stress of having his livelihood cut off." In the hospital's view, Mr. Palmer cannot work.

Jane Rollen suffers from chronic schizophrenia. She has been hospitalized several times for her psychiatric condition. Until January 1981, she was homeless and slept in the streets of New York City. She now lives in a residential program. Ms. Rollen also suffers from severe back pain caused by an injury. She attributes her back pain to possession by demons. In November 1981, Social Security officials found Ms. Rollen employable. She is appealing this determination with the help of counselors at her residential program.

Ohio

Gerard Linsey, 33, is mildly mentally retarded and brain-impaired. He also has severe psychological problems. Both Mr. Lindsey's doctors and the consultative psychologist he was sent to see by the SSA agreed that he was disabled. They concluded that he functioned well below the average and was unable to follow even simple directions. Nevertheless, Mr. Linsey received an SSA termination notice stating, "You can relate well to others and your memory is intact. Therefore you can work." The administrative law judge who reviewed Mr. Linsey's case found in the record no support whatsoever for the termination and reinstated Mr. Linsey's benefits.

William Brown has chronic pancreatis, peripheral vascular disease, liver disease, esophogeal disease, anemia, tuberculosis and chronic dementia. Yet the SSA notified him that, in the opinion of Social Security officials, he was able to go back to work as a manual laborer.

Carol Jones has a severe manic-depressive illness for which she has been hospitalized twice. Her psychiatrist's report indicates that she is isolated and withdrawn. Her illness induces anxiety so severe that her vision is blurred, she experiences frequent daily episodes of lightheadedness and she is unable to concentrate. The psychiatrist's report concludes that she cannot perform the most basic work activities -- she cannot relate to fellow workers, has difficulty understanding and following instructions, cannot maintain attention long enough to perform simple tasks and is unable to deal with even minimal stress. Not surprisingly, Ms. Jones failed to file an appeal within the proper time limit. Her disability benefits were terminated. Ms. Jones subsequently obtained representation by a legal services attorney and is now seeking reinstatement of benefits.

Pennsylvania

Fred Rowe is a chronic schizophrenic, paranoid type. To control his illness, he takes high doses of psychotropic medication. His condition is complicated by a spastic disorder which causes him to fling his arms around and a sleep disorder which leaves him drowsy much of the time, although he sleeps 16 to 18 hours a day. Mr. Rowe's 6'5" height, aggressive appearance and flailing arms present a threatening aspect to a potential employer. However, based simply on a review of his file, Mr. Rowe's disability benefits were terminated in November 1981. He was not interviewed by a Social Security official, nor was he sent to see a consultant. As a result of his loss of disability benefits, Mr. Rowe's condition worsened and he has been hospitalized. He is pursuing an appeal.

Bernice Davis, 57, worked as a housekeeper until 1976. She has painful arthritis and a nervous disorder that manifests itself in anxiety so extreme that she lives as a recluse. Except for doctors' appointments, she rarely leaves her house. Last fall, Social Security officials found Mrs. Davis no longer disabled and ready to return to work. They made this determination without ever asking her treating physician for a report on her condition. Her benefits were terminated in November 1981. Mrs. Davis is seeking state-funded general assistance to survive while awaiting a decision on appeal.

Tennessee

William Thomas suffers from severe mental illness. When he received a three-page form from SSA asking for information about his illness and medical treatment, he scrawled disturbed, accusatory notes in the margins and returned the form to Social Security officials. Eight months later, Mr. Thomas received a letter notifying him that his disability benefits had been terminated because of his failure to complete the Social Security form. Further, he was told he would be required to repay benefits he had received in the eight months between the time he received the form and the date of his termination notice. Mr. Thomas is now institutionalized at Moccasin Bend State

Hospital. Thanks to the help of hospital social workers, he is back on the disability rolls.

Bruce White has multiple health problems: severe back pain from a slipped disk, ulcers, kidney problems, tuberculosis, a substantial hearing loss and anxiety. Both his physician and the consultant Social Security officials sent him to see agreed that he was so severely disabled that he could not do even sedentary work. Despite the extensive medical evidence in his file documenting his disability, he was dropped from the disability rolls in July 1981. In early December an administrative law judge ordered him reinstated. Nearly three months later, Mr. White is still awaiting his first benefits check.

Texas

Helen Pope is mentally retarded. She has been participating in a United Way agency's sheltered workshop program. Near the end of 1980, Miss Pope attempted to move to a Goodwill Industries workshop. After a month's trial, it was clear she could not manage the job, and she was sent back to the sheltered program. In March 1981, however, she received a benefits-termination notice, giving her 10 days to appeal. She didn't understand the notice and failed to file an appeal, whereupon her SSI benefits were halted for 10 months. With the assistance of a legal services attorney, she was finally reinstated.

Sidney Bell suffers from chronic schizophrenia, which is treated with frequent injections of Prolixin, an antipsychotic medication. Mr. Bell's intelligence tests at a low level. He rarely speaks and replies to questions with one-word answers. He lives in a boarding house. A Social Security consulting psychiatrist confirmed both the diagnosis of schizophrenia and Mr. Bell's poor adaptive and functional skills, but his benefits were terminated in March 1981. Thirteen months later, he still awaits a decision on his appeal.

Chairman FORD. Thank you.
Ms. Sweeney?

STATEMENT OF EILEEN SWEENEY, STAFF ATTORNEY, NATIONAL SENIOR CITIZENS LAW CENTER, REPRESENTING GRAY PANTHERS AND LEGISLATIVE COUNCIL OF OLDER AMERICANS

Ms. SWEENEY. I am Eileen Sweeney, a staff attorney for the National Senior Citizens Law Center, appearing on behalf of the Gray Panthers and the Legislative Council of Older Americans. We appreciate this opportunity to testify before the subcommittee.

While my written statement addresses a range of issues affecting SSI recipients my focus today is on the continuing disability investigations. First, I will summarize some of the other points made in the written statement.

The Reagan administration's SSI budget proposals range from petty to inhumane. Each should be carefully scrutinized. We are most concerned with the following proposals: Elimination of the requirement that States pass through SSI cost-of-living increases rather than funneling the increases into their own State coffers; elimination of the medical vocational factors—age, education, and work experience—in assessing the SSI eligibility; and, finally, increasing the SSI disability durational requirement from 1 to 2 years.

This subcommittee has requested comments on H.R. 5911 and H.R. 5509. In H.R. 5911 we support the concept that burial related items should be excluded from consideration for SSI purposes. However, the language granting discretion to the Secretary should be deleted. We share concerns which we believe to be reflected in H.R. 5509: SSI is unfairly seeking to recoup 100 percent of SSI checks where overpayment exists. We agree that legislation is needed but it should specifically require that SSA provide SSI recipients with the opportunity for a hearing on the waiver issue before recoupment is initiated. We are opposed to authorizing the Secretary to recoup any amount to SSI recipients who were not at fault in creating the overpayment.

The problems in the continuing investigations have reached crisis level. The Social Security Administration estimates that it is currently terminating between 45 and 47 percent of disability recipients' cases which they are reviewing. While the emphasis in the continuing disability investigation process is currently on OASDI, SSA is recipients reviewing the cases of those who receive benefits concurrently under both OASDI and SSI.

In addition, SSI cases which were diaried for review at this time are being reviewed; and, further, SSA intends to review the remainder of the SSI rolls when it finishes the OASDI and concurrent cases.

Over the past years there has been a change in the tone of the disability program. Without much written instruction, all the signals are that State disability personnel should cut the rolls and keep them small. This has resulted in the termination of severely disabled individuals as well as denial of new applicants. These signals include: Requirements that SSA review allowances but not denials or terminations; excessive emphasis on speed to the exclusion

of accuracy; failing to require States to assure that there is adequate evidence developed; public discounting by SSA of the currently high ALJ reversal rates, arguing that the ALJ is out of step with SSA and ignoring the growing problems at the State level; statements indicating that SSA is affecting budgetary savings in the disability program by terminating high percentages of allegedly nondisabled persons; and statements indicating that a decision regarding which case to review is based not upon the likelihood of medical improvement but upon the amount of the person's monthly benefit; the higher the benefit, the greater the chances for review. In effect, the Reagan administration is affecting the budgetary savings in the disability programs by cutting eligible people, exactly what Congress refused to allow them to do just last year.

Severely disabled people are being terminated without adequate medical evidentiary development, and despite the fact that they are totally incapable of working. Often the only documents supporting these arbitrary and incorrect decisions are the inadequate reports of consultative examiners. In some cases, however, cases are being terminated even where the consultative or examiner believed the person to be disabled.

All indications are that SSA is concerned with speed, not accuracy, in the disability determination process. That message has been made clearly in the SSA regulations governing the Federal-State relationship. These regulations do not even require that the State assure that medical evidence be properly and fully collected. They do, however, set up numerous timeframes with which the State must comply. While we agree that the States should be required to operate efficiently, timeliness is not beneficial to claimants and beneficiaries in the CDI's if it results in wholesale inaccuracies in decisions. It is similarly not cost effective for SSA because claimants who do not believe they have received a full and fair consideration will appeal.

The message must be changed. We propose first that SSA be required to amend its regulations to shift the emphasis to assuring accuracy as well as efficiency in decisionmaking at the State level. To reinforce this shift SSA should be required to review disallowances in the same fashion that they currently perform preeffectuation review of allowances.

Second, a pending review should be provided in the OASDI program through the ALJ level and any OASDI or SSI payments received during the appeal process should not be treated as an overpayment if the person does not ultimately prevail on the merits.

Third, the definition of disability should be amended to clarify that before a person's disability benefits may be terminated there must be a showing that his or her medical condition has improved or that the original decision awarding benefits was clearly erroneous. This last point is consistent with the rulings of numerous Federal courts which SSA has illegally chosen to ignore.

Finally, SSA should be required to properly and fully regulate and monitor consultative examiners.

H.R. 5700, disability amendments of 1982, will not solve the CDI problem. This bill has been reported by the Social Security Subcommittee and is awaiting action by the full Ways and Means Committee. While there are some relatively minor provisions of H.R.

5700 which will be of assistance to individuals terminated by the CDIs, the bill is not designed to assure that disabled people will continue to receive their benefits.

Further, some provisions are so harmful to claimants that unless they are substantially amended or totally deleted, we cannot support the bill.

We are opposed to sections 5 and 7 of the bill, which will close the evidentiary record after the reconsideration level, require the Secretary to require that the same standards be applied at all levels without notice and comment, and eliminate the ability of Federal courts to remand cases to the Secretary with no recognition of the fact that this will create chaos in the judicial review process.

These provisions are discussed in greater detail in my written statement, and I thank you for this opportunity to testify.

[The prepared statement follows:]

STATEMENT OF EILEEN P. SWEENEY AND BRUCE M. FRIED, NATIONAL SENIOR CITIZENS LAW CENTER ON BEHALF OF THE GRAY PANTHERS AND THE LEGISLATIVE COUNCIL OF OLDER AMERICANS

I am Eileen P. Sweeney, a staff attorney at the National Senior Citizens Law Center (NSCLC), appearing on behalf of the Gray Panthers and the Legislative Council of Older Americans. We are most appreciative of the opportunity to appear before the Subcommittee today.

NSCLC is a national support center, specializing in the legal problems of elderly poor people. We are funded by the Legal Services Corporation and the Administration on Aging. Pursuant to the Law Center's Legal Services Corporation grant, we provide support services to legal services attorneys throughout the country with respect to the legal problems of their elderly clients. Under the Administration on Aging grant, NSCLC will be providing training and planning assistance to the states, and will be developing strategies to resolve the legal problems of older people without the direct delivery of services. My responsibilities include working with legal services and aging advocates on the Social Security and Supplemental Security Income problems of their clients.

The Gray Panthers is a non-profit organization incorporated in Pennsylvania, with its headquarters in Philadelphia. It has an estimated membership of 40,000 persons who reside throughout the United States. Its members seek to reform various laws and institutions which affect the lives of the elderly, including Social Security and Supplemental Security Income.

The Legislative Council of Older Americans, Inc. is a statewide non-profit organization representing approximately 48,000 senior citizens in Massachusetts. The Council's primary interests are income maintenance, health care and housing issues; issues which the Council advocates before the Massachusetts state

legislature. The Council was founded in 1968 by its president, Frank J. Manning.

My testimony today focuses on the following points:

1. Disability cessations: The Reagan Administration is illegally terminating thousands of severely disabled people from the SSI and OASDI programs. The Congress must take steps to reverse this process.

2. Reagan Administration budget proposals: The proposals range from petty to inhumane. Each should be carefully scrutinized and rejected. This statement addresses the following proposed cuts in some detail:

   a. elimination of the requirement that states "pass-through" SSI cost-of-living increases rather than funneling the increases into their own coffers;

   b. elimination of the medical-vocational factors, age, education and work experience; and

   c. increasing the disability durational requirement from one to two years.

3. Specific legislation:

   a. H.R. 5911: Burial-related items should be excluded. However, the language according discretion to the Secretary should be deleted.

   b. H.R. 5509: SSA is acting arbitrarily and unfairly in seeking to recoup 100% of SSI checks where over-payments exist. We agree that legislation is needed, but believe that such legislation should specifically require that SSA provide SSI recipients with the

opportunity to a hearing before recoupment is initiated. We are opposed to authorizing the Secretary to recoup any amount from SSI recipients who were not at fault in creating the overpayment.

c. H.R. 5700: First, the bill will not remedy the CDI crisis. Second, it contains some provisions which will be extremely harmful to both SSI and OASDI claimants and recipients:

i. closing the evidentiary record after the reconsideration level;

ii. requiring that the Secretary assure that all levels of review follow the same standards without requiring that those standards be subject to public notice and comment;

iii. eliminating the ability of federal courts to remand cases to the Secretary with no recognition of the fact that this will create chaos in the judicial review process.

I. The continuing disability investigations process is being used to cut eligible, severely disabled people from the rolls.

The Social Security Administration estimates that it is currently terminating between 45% and 47% of the disability recipients' cases which they are reviewing. While the emphasis in the continuing disability investigation (CDI) process is currently on OASDI recipients, SSA is reviewing the cases of those who receive benefits concurrently under both OASDI and SSI. In addition, SSI

cases which were diaried for review at this time are being reviewed. SSA intends to review the remainder of the SSI rolls when it finishes the OASDI and concurrent cases.

While there are a number of legislative measures which would help to remedy this crisis, the primary problem is that there must be a change in the message being sent to state-level reviewers and SSA staff.

Over the past years, there has been a change in tone in the disability programs. Without much written instruction, all the signals are that state disability personnel should cut the rolls and keep them small. This has resulted in the termination of severely disabled individuals as well as the denial of new applicants. These signals include:

- requirements that SSA review allowances but not denials or terminations;
- excessive emphasis on speed to the exclusion of accuracy;
- as a corrollary, the failure to require states to assure that there be adequate evidence development;
- public discounting by SSA of the currently high ALJ reversal rates, arguing that it is the ALJs who are out of step with SSA and ignoring the growing problems at the state level;
- statements indicating that SSA is affecting budgetary savings in the disability program by terminating high percentages of allegedly non-disabled persons; and
- indicating that the decision regarding which case to review is being based, not upon the likelihood of medical

improvement, but upon the amount of the person's monthly benefit (the higher the benefit, the greater the chances for review).

In effect, the Reagan Administration is affecting the budgetary savings in the disability programs by cutting eligible people; exactly what Congress refused to allow them to do just last year.

Severely disabled individuals are being terminated without adequate medical evidentiary development and despite the fact that they are totally incapable of working. Often the only documents supporting these arbitrary and incorrect decisions are the inadequate reports of consultative examiners. In some cases, however, cases are being terminated even where the consultative examiner believed the person to be disabled.

All indications are that SSA is concerned with speed, not accuracy, in the disability determination process. That message has been made clearly in the SSA regulations governing the federal-state relationship. These regulations do not even require that medical evidence be properly and fully collected. They do, however, set up numerous time frames with which the states must comply. While we agree that the states should be required to operate efficiently, timeliness is not beneficial to claimants and beneficiaries (in the CDIs) if it results in wholesale inaccuracies in decisions. It is similarly not cost-effective for SSA because claimants who do not believe they received full and fair consideration will appeal.

The message must be changed. We propose, first, that SSA be required to amend its regulations to shift the emphasis to assuring accuracy in decision-making at the state level.

To reinforce this shift, SSA should be required to review disallowances in the same fashion that they currently perform

pre-effectuation review of allowances.* It is not adequate to argue that the ability to appeal the denials is a self-policing mechanism rendering review of disallowances unnecessary. If that was true, SSA would currently be questioning the state's abysmal records rather than attacking the ALJs' high reversal rates. SSA simply does not view ALJ reversals as any reflection upon the accuracy of state agency decision-making. The result is that the easiest, least monitored, route for the states to take is to deny, regardless of the severity of the person's impairments.

In addition to (1) requiring review of disallowances as well as allowances, we recommend that Congress take the following steps to change the message in order to assure that CDIs are performed properly and that claimants receive full protection from SSA and state agency abuses:

(2) Provide aid pending review in the OASDI program through the ALJ level and that any OASDI or SSI payments received during the appeal process will not be treated as an overpayment should the person not ultimately prevail on the merits;

(3) Amend the definition of disability to clarify that, before a person's disability benefits may be terminated, there must be a showing that his/her medical condition has improved or that the original decision awarding benefits was clearly erroneous. This last point is consistent with the rulings of numerous federal courts, which SSA has illegally chosen to ignore; and

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*H.R. 5700, as reported by the Social Security Subcommittee, requires review of some disallowances. We believe that this is a very constructive step.

(4) Require SSA to properly and fully regulate and monitor the often-abusive practices of consultative examiners.*

II. Reagan Administration SSI Budget Proposals

The Reagan Administration's budget proposals for the SSI program range from petty to extremely dangerous. All are outrageous. While this statement discusses some of the most dangerous in some detail below, at least brief mention must be made of the following proposals:

A. Rounding of benefits: Currently, SSI benefits are rounded to the next higher dime. The Administration proposes instead to round to the next lower dollar. Its justification for this drastic change is that "over time ...this rounding...has had a compounding effect that results in higher benefits payments. Rounding (to the next lower dollar) would eliminate this modest overcompensation..." "Modest" is an incredible overstatement and reflects that absurdity of the reasoning. The only reason to shift so dramatically is to save money. No one should believe there is any concern that SSI recipients have become rich on the extra few cents they have received.

B. Elimination of $20 income disregard: The logic here is equally tortured. According to the Administration, as set forth in its budget documents, there are two reasons

*The Social Security and Oversight Subcommittees have held joint hearings on the incredible problems created by "volume provider" consultative physicians. H.R. 5700, the "Disability Amendments of 1982," as reported by the Social Security Subcommittee, does not address the issue.

why the disregard should be eliminated: (1) "Since the disregarded amount is fixed, it is of decreasing significance in real dollars;" and (2) "It can also result in differential treatment of recipients." Both of these statements are true. However, in the SSI program where every dollar is critical to recipients, we look at the same facts and conclude the exact opposite: if the disregard is of decreasing value, then it should be increased and indexed; if there is sincere concern that the disregard results in differential treatment of recipients and if it is believed that it must be eliminated, it would be more appropriate to increase all SSI checks by $20.00 while eliminating the disregard. A finding of differential treatment should not result in all receiving what those previously receiving the least received.

There are three major cuts which the Administration has proposed which we recommend that the Subcommittee reject:

C. Elimination of the medical-vocational factors: Just last year, the Reagan Administration attempted to eliminate consideration of the medical-vocational factors in the OASDI program. Unsuccessful at their first attempt, the Administration now returns with the same proposal. This time, however, it is targetted at the poorest of the disabled. It is only reasonable to assume that, if this proposal was to be enacted, the Reagan Administration would return next year to again seek the same cut in the OASDI program.

This proposed change will cut hundreds of thousands of severely disabled individuals from the SSI program. The Assistant Director of the Maryland state disability determinations unit has estimated that approximately 25% of the OASDI claims are awarded on the basis of the medical-vocational factors. He also stated that he believes that figure to be higher nationally.* It is likely that the figures are at least as high in the SSI program. Yet, in its 1983 Budget proposals, the Administration seeks to minimize the effect of its proposal by stating that it would "exclude payments to an estimated 115,000 individuals in 1983." There are approximately 2.1 million blind and disabled people receiving SSI. Even if the Maryland figure (25%), which is believed to be low, is utilized, it is likely that 500,000 will be terminated while others will be denied at the time they first apply.

As you are aware, the medical vocational factors are age, education, and work experience. They work to the advantage of individuals over age 50. Elimination of these factors will therefore work to the greatest detriment of the elderly disabled. They will be forced to prove that their impairments meet the tests set forth in the Listings of Impairments. This is often impossible either because the tests in the Listings are too rigid or because the person suffers from a number of impairments,

*Statement of Roger Griest, Hearing before the Select Committee on Aging, House of Representatives, "Impact of Administration's Social Security Proposal on the Elderly," May 21, 1981, Comm. Pub. No. 97-305, page 197.

the cumulative effect of which is to render him/her disabled.

We recommend that the Subcommittee reject this proposal.

D. Increasing the durational requirement to two years

Again, the Administration sought this change just last year in the OASDI program. Again, they backed off and instead this year seek to get their foot in the door via the SSI program. Currently, a claimant must establish that his/her disabling condition has lasted or can be expected to last at least tweleve months. This time-frame was reached after painful experiences with exactly the standard which the Administration proposes to impose, two years.

For many years, claimants in the OASDI program were required to establish that their impairments were "long-continued and [of] indefinite duration." SSA interpreted this to mean that the person had to establish duration of at least 18 to 24 months. Generally, physicians were not willing to make such a long prognosis, particularly where a psychiatric impairment was involved. The result was two-fold: first, many eligible individuals were denied; and second, delays occurred in awarding benefits in order to establish the durational requirement.

Roger Griest, Assistant Director of the Maryland disability unit, testified last year on the Administation proposal:

> The proposed change would return us to that state [the 18 to 24 month period]. I might say that my experience and those of us who worked in those days found that to get a prognosis for

> anywhere from 21 [sic] months to almost 2 years, was next to impossible and it delays the processing of claims significantly since doctors are very reticent to project changes in individuals for that period of time. Particularly at issue would be psychiatric applications where an individual is just beginning to undergo therapy. The psychiatrists at the present time are reticent to even give us a 12-month projection let alone a 24-month. I can only see this clouding the issue and making it more difficult to adjudicate claims on a timely basis.*

We recommend that the Subcommittee reject this proposal.

E. Elimination of the SSI "pass-through"

Secretary Schweiker has characterized the Reagan Administration's proposal to eliminate the "pass-through" as "technical." The SSI recipients who will be injured by passage of this "technical" proposal would find it more appropriately characterized as "disastrous" and "inhumane."

The pass-through was originally created to eliminate the very problem which Mr. Schweiker uses to justify the need for elimination: when the Congress provided for a cost-of-living adjustment in SSI, only the states benefited. They reduced their supplements by the amount of the federal increase,** resulting in no gain to the SSI recipient.

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*Id.

**In 1976, only thirteen states passed through the full 1976 cost-of-living increase. Eight other states passed through a portion of the increase. Oklahoma v. Schweiker, 655 F.2d 401, 404 n.6 (D.C. Cir. 1981).

The absurdity of this arrangement was recognized by one of the provision's co-sponsors, Representative O'Neill:

> In June of this year I sent a newsletter to my constituents. One of the items included in the newsletter was an announcement of the 6.4 percent cost-of-living increase for social security recipients and SSI recipients. As soon as the newsletter reached my constituents, the telephones were ringing of the hook in my Boston office with people telling me they did not receive the SSI cost-of-living increase. These people are the aged, the blind, and the disabled. I began looking into it, and I found it was true not only in Massachusetts but in other states...
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> ...when the Federal Government voted cost-of-living increases for SSI beneficiaries, we did not intend that they revert to the State treasury; nor was it intended that they revert to the Federal Treasury, as in three states, including Massachusetts. Congressional Record, pp. 28280, 28282 (August 30, 1976)

It should also be noted that some of the states affected by the pass-through attempted unsuccessfully to challenge the requirement in court. Oklahoma v. Schweiker, 480 F.Supp. 581 (D.D.C. 1979), aff'd. 655 F.2d 401 (D.C. Cir. 1981). Recognizing Congress' ability to impose conditions upon the receipt of federal funds pursuant to its broad power to spend for the general welfare, U.S. Constitution, Article I, §8, cl. 1, the Court upheld the constitutionality of the pass-through, finding that it was "enacted for the permissible objective of guaranteeing that SSI cost-of-living increases approved by the Congress benefit those whom they were designed to assist, rather than subsidize the states." 655 F.2d at 417.

Rejected by the courts, the states have found in the Reagan Administration an ally willing to assist them in undermining what little economic security many elderly and disabled individuals currently retain. The Reagan Administration seeks to eliminate the pass-through so that states can, with the blessing of the federal government, push elderly and disabled people further into poverty. We encourage the Subcommittee to reject the Administration's "technical" proposal.

III. Pending Legislation

A. H.R. 5911: Exclusion of burial-related resources from consideration in determining eligibility for SSI.

With one qualification, we support H.R. 5911. For far too long, indigent aged and disabled individuals have been forced to trade in their peace-of-mind in order to assure eligibility for SSI.

While provision of the exemption is critical, we recommend that you strike the language in the bill which permits the Secretary to establish the maximum exemptions. The Congress' experience with similar language in the SSI program demonstrates that the Secretary will set such unreasonably low levels that no one will benefit from the provision.

Prior to 1976, a person's home was excluded as a resource, "to the extent that its value does not exceed such amount as the Secretary determines to be reasonable." 42 U.S.C. § 1383b(a)(1), prior to amendment. The Secretary set the "reasonable" value for homes at $25,000 ($35,000 in Alaska and Hawaii). Needless to say, due to high inflation rates and resulting high property values,

very few homes were exempt. Elderly people were being forced to sell their homes in order to eventually become eligible for SSI.

The Congress was outraged. In 1976, in Public Law 94-569, the language according discretion to the Secretary was eliminated. 42 U.S.C. § 1382b(a)(1). Currently, the full value of a person's home is excluded from consideration as a resource. The concerns expressed by the members of Congress in the context of the home resource exclusion are equally applicable here:

Senator Clark:

> To my way of thinking, the present policy is wrong. I believe that we should try to encourage aged, blind, and disabled persons to retain their homes. Most of these persons worked long and hard for the homes they now enjoy. In practically all cases the home is their only major asset. They should not be forced to transfer it - after a lifetime of savings and work - in order to receive SSI. Congressional Record, p. 34546.

Senator Cranston:

> [The $25,000 ceiling set by HEW] is an unfair and unrealistic limit that contravenes the clear congressional intent that a home of reasonable value should be permitted.
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> * * * *
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> Therefore, those blind, disabled or aged persons who have managed to save and purchase a home and maintain its upkeep are penalized because of their perserverance. To make a potentially eligible person ineligible for needed assistance because they have a nice home is truly unwarranted. To make them sell or move out of that home in order to be eligible is equally cruel and unjust. Id. pp. 34546, 34549.

Representative Drinan:

> When the SSI program became effective in January of 1974, the Department of Health, Education and Welfare distributed an introductory pamphlet called "Design for Dignity: Supplemental Security

> for the Aged, Blind and Disabled." The program is an important experiment which can have a positive and profound influence on the Nation's thinking about the nagging question of whether a means-tested program can be designed and administered in ways which will enhance rather than negate the beneficiary's feeling of self-worth and capacity to function as a firt-class citizen.
>
> Homeownership has always reenforced a positive notion of self-worth and removing the home value resource criteria will move us closer to achieving a "design for dignity." Congressional Record, p. 27840 (August 26, 1976).

Given the Reagan Administration's interest in cutting funds from programs such as Social Security and SSI and their budget-minded approach to the continuing disability investigations, resulting in the termination of thousands of severely disabled people, there is no reason to believe that the limitations set by the Secretary in accordance with H.R. 5911 would reflect the intent of the Congress. Given the history of the home resource exclusion, it would be more appropriate for the Congress to short-circuit the need to amend the provision next year by eliminating the Secretary's discretion. The bill should simply exclude burial plots, insurance policies and irrevocable trusts from the resource limit.

This full exclusion will not only benefit the indigent, for whom the fear of burial in "potter's field" is all too real, but it will also eliminate the administrative expense incurred in assessing the value of various burial-related items.

B. H.R. 5509: limitation upon the amount which can be recouped in SSI where the person is "without fault".

While we recognize the purpose of H.R. 5509 and believe that Congressional action is needed we believe that the bill will result in unintended hardship for many SSI recipients.

SSA's current practices in recouping alleged overpayments is most appropriately analogized to the collection efforts of "loan sharks." They range from threatening illegal action to proposing to withhold 100% of a person's SSI check.

Attached as Exhibit A is a letter which SSA sent to a recipient seeking repayment in full of $238. The letter threatens actions which SSA does not have authority to authorize:

> Congress and the administration are proposing to have interest charges imposed on overpaid accounts and are also considering that appropriate action be taken to forward delinquent accounts to a collection agency. We also believe that the three year limit allowed to refund a debt will be reduced significantly.
>
> To avoid the effects caused by these proposals we are requesting that you repay the total overpayment of $238.00 in full at this time. If you are unable to do so, please contact our office regarding a monthly installment agreement...

SSA is also attempting to withhold 100% of individual's SSI checks. In a "Debt Management Bulletin," issued in Region V of SSA, No. 81-1, dated November 24, 1981, SSA described its "new initiatives" in collecting alleged overpayments. SSA stated that written notices of overpayment "should always request full and immediate refund." If the person is receiving OASDI or SSI, the notice informs him/her that 100% of his/her benefits will be withheld until the amount is repaid unless payment is made within 30 days. No mention is made of the possibility that SSA will prorate the amount due. But, "(i)f a liable person requests a lower rate of withholding or an installment repayment plan, the fastest repayment plan possible should be negotiated." This plan is in effect in the SSI program.

We believe that H.R. 5509 is addressed at these types of problems. The bill would limit SSA's ability to recoup an over-

payment to "25% or $10 (whichever is larger)" per month, if the person was "without fault" in creating the alleged overpayment. We see two problems with this approach.

First, if an SSI recipient is found to be "without fault" in the creation of the overpayment, recoupment is generally waived. This would provide the Secretary with greater ability to injure innocent SSI recipients by permitting recoupment of "25% or $10 (whichever is larger)" where the person is "without fault." 25% is a great deal of money to an SSI recipient. An individual currently receives $264.70 monthly while a couple receives $397.00. This bill would authorize the Secretary to recoup up to $66 per month from an individual and $99 per month from an eligible couple, even though they were not at fault in creating the overpayment, resulting in incredible hardships.

Second, while an OASDI recipient has the right to a hearing prior to recoupment where waiver of recoupment is sought, see Califano v. Yamasaki, 442 U.S. 682 (1979), SSA has refused to extend this same right to SSI recipients. We believe that any bill addressing the overpayment problems in the SSI program should assure that the opportunity for such a hearing is provided.

C. H.R. 5700: the "Disability Amendments of 1982 "

While there are some relatively minor provisions of H.R. 5700 which will be of assistance to individuals terminated during the CDI, the bill is not designed to assure that disabled people will continue to receive their benefits. Further, the major provisions of the bill are so harmful to claimants and beneficiaries that, unless they are substantially amended or totally deleted, we can not support it.

For the sake of brevity, only the three most dangerous provisions of the bill will be discussed.

1. "Strengthening the reconsideration process" (Section 5)

We are very disturbed about the provisions of H.R. 5700 which are intended to strengthen the reconsideration stage of review. Apparently recognizing its current deficiencies, the bill seeks to improve the reconsideration stage. Unfortunately, as currently written, the appellant will bear the entire burden of cleaning up this administrative disaster. Meanwhile, nothing in the bill provides any incentives to either SSA or the states to properly adjudicate cases.

a. Closing the evidentiary record after reconsideration

The vast majority of claimants are not represented at the reconsideration level. They are not familiar with the evidence required to support a finding of disability. Yet, according to H.R. 5700, they alone will bear the burden of assuring that the states improve their evidence development practices. This approach is unrealistic, unfair, and destined to fail.

First, it is unfair to expect that claimants will serve as police officers. The price which they pay is delay. Bouncing back and forth between the federal and state levels will add new elements of delay to the process and more work for already burdened ALJs. The ALJ will be required to review all of the evidence to determine if a remand is appropriate. Then, the case will return to the states, and then most likely, back to the ALJ. Our experience has been that very few cases are reversed at the reconsideration level. It is therefore likely that the case will return to the ALJ stage.

The bill also unfairly shifts an even greater burden onto the unrepresented disabled claimants and beneficiaries to obtain all medical and vocational evidence on their own. The ALJs will no longer be there to assist and, with rare exceptions, the state levels have not provided that assistance. Nothing in this bill will change that.

Second, it is not realistic to expect that claimant-sought remands will result in a systematic clean-up of the reconsideration stage. Instead, it is more likely that the current problems will simply escalate: state agencies will deny cases, continuing to provide poor evidence development, knowing that claimants will appeal and, if they can obtain the evidence on their own, be forced to seek a remand. The Congress has already taken steps to remedy an analogous abuse in the SSA appeals procedure: prior to P.L. 96-265, the Appeals Council regularly failed to properly review appeals, knowing that they could easily obtain a court remand if judicial review was sought. There is no reason to create the same problem here.

b. Hearing Examiners at the Reconsideration Stage and [illegible]wing of Prejudice

Given our general reservations regarding the reconsideration process, we believe that it will be counter-productive to include hearing examiners at the reconsideration stage.

We are also concerned that, unlike ALJs, these hearing examiners will have no decisional autonomy and will be subject to substantial pressure from SSA, as well as the state agencies, to uphold denials. There is no reason to believe that state personnel (or SSA district office personnel) designated as hearing examiners will not feel pressures when their pay checks and promotions are

determined by the same agencies whose decisions they would be reversing.

Under H.R. 5700, in order to appear before a hearing examiner, a person must first make a "showing" that he or she was prejudiced by the initial decision denying benefits. First, it is not clear how an unrepresented person would make that showing. Second, who will decide that a "showing" has been made? These provisions simply create additional obstacles to a person's right to obtain a full and fair hearing before an administrative law judge.

c. Face-to-face interviews

We believe that a face-to-face interview with the state agency staff who will adjudicate the claim would be useful. We are concerned, however, with the exception which permits the states to request that SSA district office personnel perform the interview. SSA staff already interview claimants. It is not uncommon for SSA staff to include their observations of the claimant in the file. As these observations currently go unheeded, the exception essentially maintains the status quo and should not be viewed as being of any benefit to the claimant.

2. "Guidelines for Disability Determinations" (Section 7)

Section 7 of H.R. 5700, as amended in subcommittee, would require that the Secretary assure that all levels of review follow the same standards. It is important to note what the provision does not require: it does not require the Secretary to assure that the standards are subject to public notice and comment.

Commissioner Svahn, in his testimony before the Social Security Subcommittee on H.R. 5700 (March 17, 1982), stated that SSA intends to utilize its "Social Security Rulings" to issue

standards which are binding upon all levels of review. The Rulings are not subject to public notice and comment.

We agree that it would be extremely helpful if all levels of review followed the same set of rules. However, we are strenuously opposed to this provision. It is critical that the disability determination process and the standards utilized therein be accessible to the public and subject to public comment. The only binding rules should be those which are properly promulgated in accordance with the Administrative Procedure Act. SSA's unauthorized practice of "non-acquiescing" in judicial decisions it disagrees with has effectively insulated it from fully complying with various court rulings, despite SSA's failure to appeal the decisions with which it disagreed.* The Social Security Rulings, SSA's vehicle for "non-acquiescing," should not be accorded the weight which will result from passage of Section 7. It would be more appropriate to

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*A problem currently existing in the Ninth Circuit is an excellent example of this incredible problem. In Finnegan v. Mathews, 641 F.2d 1340 (9th Cir. 1981), the Ninth Circuit ruled that the Secretary could not terminate the benefits of SSI disability recipients who had been "grandfathered" into the program from state disability rolls when the SSI program began, unless SSA established that either the "recipients' medical condition has materially improved" or that there "was clear and specific error" in the original finding of disability. In other words, SSA can not apply its current regulations to cut a grandfathered person off as that would defeat the underlying purpose of the grandfathering language of the SSI provisions.

SSA did not like the Finnegan ruling. But, unlike other disgruntled litigants, it decided not to appeal to the Supreme Court, and instead, "non-acquiesced" in the ruling. In January, 1982, SSA issued Social Security Ruling 82-10c, "non-acquiescing" in Finnegan. And, as if that was not sufficient, on February 23, 1982, Louis B. Hays, Associate Commissioner of the Office of Hearings and Appeals wrote a memo to all ALJs, specifically telling them that they were bound by the Social Security Rulings and were to ignore Finnegan even in "cases involving claimants who reside within the jurisdiction of the United States Court of Appeals for the Ninth Circuit."

This practice is clearly illegal. At least two circuit courts of appeals have struck a virtually identical practice of the National Labor Relations Board. See, for example, Ithaca College v. NLRB, 623 F.2d 244 (2d Cir. 1980); Alleghany General Hospital v. NLRB,

(continued on next page)

examine SSA's policy of "non-acquiescence" and consider its appropriateness in the overall administrative review scheme. We believe SSA should be prohibited from disregarding judicial decisions.

The effect of Section 7 will be to encourage SSA to avoid the regulatory process, just amending the Social Security Rulings.**

We can not stress enough the importance of the public comment process. Often, it is the only opportunity which claimants, beneficiaries and their representatives have to suggest alternative approaches to the Administration and to point out potentially illegal provisions and incorrect assumptions.

We recognize and share the Subcommittee's concern that there be uniformity at all levels of review. We believe that an alternative formulation of section 7 would adequately meet those concerns while eliminating the problems mentioned above. We therefore recommend that proposed section 7 be amended to require that the regulations of the Secretary, as published in the Federal

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* (continued from page 21)

608 F.2d 965 (3d Cir. 1979). These cases hold that the agency is bound to follow the law of the circuit. Failure to do so results in the agency operating "outside the law." Allegheny General Hospital, 608 F.2d at 970.

SSA's illegal practice, just in the Finnegan case, resulted in the filing of additional litigation, all of which must be defended at government expense. In the state of Washington, a class of grandfathered SSI recipients who have been terminated have sued to enforce Finnegan. Siedlecki v. Schweiker, No. 82-61R (W.D. Wash.) It is likely that other such cases will be filed in the states within the jurisdiction of the Ninth Circuit. In addition to needless governmental expense, SSA's failure to follow Finnegan has resulted in the cessation of hundreds, perhaps thousands, of SSI grandfathered recipients who are clearly entitled to benefits and who have no other means of support.

**Under the language of the provision, nothing would prevent SSA from also utilizing the "POMS" (Program Operations Manual System) in establishing uniform standards if it chose to do so.

Register, will govern determinations of whether individuals are disabled at all levels of review

3. Court remands (contained within Section 5)

We find the proposal to eliminate a court's ability to remand, even after a reversal of the Secretary's ruling, very troubling and unwise. [Section 5(c)] In the 1980 Amendments, Congress required that remands be permitted only where "good cause" exists. The purpose of the amendment was to address, among others, a bad habit which SSA had: in order to avoid court reversals while also avoiding properly reviewing appeals at the Appeals Council level, SSA would virtually automatically seek remands in meritorious judicial review cases; thereby creating further delay for the appellants.*

The 1980 amendments properly addressed an abusive use of the remand. Mr. Pickle has indicated that the number of remands is still high - 4,000 in 1981 and that this provision is addressed at eliminating that problem. The proposed solution assumes that there is something inherently bad about remands. That simply is not true. In many cases, a remand is the only relief which will properly remedy the deficiencies in the Secretary's decision. One example will illustrate the problems created. In Diabo v.

*"In addition to concern about the growth of the courts' workload and adherence to the substantial evidence rule, concern has been expressed about the Secretary's authority, on his own motion, to remand a case back to an ALJ prior to filing his answer in a court case.

Some critics have suggested that such absolute discretion gives the Secretary potential authority to remand cases back so that they can be strengthened to sustain court scrutiny. Others have suggested that such a device also may have the tendency to lead to laxity in appeals council review in that it will give the council another look at the case if the claimant decides to go to court." Senate Report No. 96-408, p. 58, [1980] U.S. Code Cong. & Adm. News 1227, 1336.

Secretary of Health, Education and Welfare, 627 F.2d 278 (D.C. Cir. 1980), the court held that the ALJ erred in, among others, not ascertaining the severity or effects of the pain which Mr. Diabo experienced, nor the effects of the medication which the claimant was required to take. The court also held that the ALJ incorrectly omitted necessary information from the hypothetical question he provided to the vocational expert regarding the availability of jobs which Mr. Diabo could perform. 627 F.2d at 282-3. As a result, the court "vacated and remanded" the case, and, "[i]n view of the seven years already consumed in this case, . . . urge[d] the Secretary to proceed speedily." Id. at 283. Mr. Diabo was unrepresented at all levels before judicial review.

If the court had not been able to remand this case to the Secretary, what could it have done with it? Elimination of the ability to remand will create a class of claimants whose cases will be in limbo. Despite the fact that the Secretary's decisions have been reversed or vacated, they will not be able to provide the additional information required to make a correct decision, so they will never receive benefits.

It would not have been proper for the Diabo court to simply reverse the Secretary and reward Mr. Diabo benefits. The bases for the reversal were various omissions in facts and incorrect assumptions and statements by the ALJ which rendered the vocational expert's testimony useless. Without the omitted information and properly-based expert opinions, there is no way that the court could determine the ultimate outcome. If there is no remand, its only recourse would seem to be to refer the case back to the district court in order to accept and review new evidence. This will result in more work for the federal district courts. It may

also mean greater court delays for claimants because judges will be unwilling or unable to find the time needed to properly assess new evidence submitted.

Even if district court resolution of the cases is acceptable, which it is not, the courts will not be in the position to rule in many cases without full-scale hearings. This certainly gives new meaning to the current understanding of judicial review in these cases and would not seem to be a desirable result.

Thank you for this opportunity to testify.

301 S. Park
Helena MT 59626

February 19, 1982

[redacted]
Helena MT 59601

51[redacted]DI

Dear Ms. [redacted]:

The Social Security Administration is contacting all claimants who are currently overpaid benefits, regarding total refunds of outstanding overpayments.

Congress and the administration are proposing to have interest charges imposed on overpaid accounts and are also considering that appropriate action be taken to forward delinquent accounts to a collection agency. We also believe that the three year limit allowed to refund a debt will be reduced significantly.

To avoid the effects caused by these proposals we are requesting that you repay the total overpayment of $238.00 in full at this time. If you are unable to do so, please contact our office regarding a monthly installment agreement. Please contact our office by March 1, 1982.

If you have any questions regarding this matter, please feel free to contact a service representative at the local social security office.

FEB 22 1982

cc: Russell A. LaVigne
Legal Services
316 N. Park
Helena MT 59625

Mr. STARK. Mr. Chairman, if Ms. Robbins and the Chair will yield for a minute. Let me see if I understand Ms. Sweeney's testimony.

You were talking about the Social Security Administration and a bill which, I believe, is being heard before another subcommittee of the Ways and Means Committee. Am I correct in assuming that parts of that bill, H.R. 5700, have an impact on the supplemental security?

Ms. SWEENEY. Very definitely. It is a procedural bill. It deals with the type of procedures that will be used at the reconsideration level, the types of standards that will be applied at all levels of review, what actions the courts will be allowed to take when they review cases. All of those apply equally to the SSI program as well as to the OASDI program.

Mr. STARK. Has that always been the case? I can see it makes some sense. It seems like a waste to go to two doctors.

Has the SSI program always kind of accepted the OASDI regulations?

Ms. SWEENEY. Well, I am not sure exactly how it is worked within the Congress between the subcommittees, but the way the bill is written, the way the act is written the SSI provisions, for instance, judicial review, just cite to the relevant provision of the OASDI program. And that is also true, I believe, with the definition of disability, so that you do have very similar and often identical provisions and, therefore, the effect on one program will be identical to the other.

Mr. STARK. But the programs are in fact different, are they not? I mean SSI is basically only for poor folks?

Ms. SWEENEY. That is right, although I would argue that many of the people on social security are really no better off than the people on the SSI program.

Mr. STARK. I agree, but basically the social security program is for anybody, for the Rockefellers and the poorest of the poor, which is not the case in SSI as I understand it.

Ms. SWEENEY. That is correct.

Mr. STARK. I think perhaps, Mr. Chairman, I would request that our staff look into the question of whether there ought to be a joint referral of H.R. 5700 to our subcommittee relative to those sections of the bill which are relative to the jurisdiction of the subcommittee.

Chairman FORD. The chairman would instruct the staff to look into that.

Mr. STARK. I am sorry for the interruption.

STATEMENT OF HILDA ROBBINS, GOVERNMENT AFFAIRS COMMITTEE, NATIONAL MENTAL HEALTH ASSOCIATION

Ms. ROBBINS. That is all right. I think I might like to add that we understand that H.R. 5700 may be marked up next week, and so I think that if additional study is going into this it ought to get underway.

Mr. STARK. Our chairman moves with the swiftness of light.

Ms. ROBBINS. I must say that these hearings moved with the swiftness of light, and I am glad that we still have some people

with us even though we are coming to the end of the day. I know it is a long way before we are to the end of this fight we are in.

My name is Hilda Robbins. I bet you thought I was the Gray Panther. That is the way you looked at me.

Chairman FORD. No, no. Let me say I looked on the witness list and it had Robinson and your name tag shows Robbins, and that is why I looked that way.

Ms. ROBBINS. Well, the third time they ought to get it right. It is R-o-b-b-i-n-s, but I know they just corrected that. I appreciate that correction.

With me today is Chris Koyanagi, a member of my staff. I am a member of the Government Affairs Committee and a former president of the National Mental Health Association. I have been a volunteer with the Mental Health Association for 26 years, and I also speak as a consumer of mental health services because I have been subject to and treated for depression for 41 years of my life.

As you probably know the Mental Health Association is a voluntary, independent nationwide organization which was founded in 1908 for the purpose of promotion of mental health, prevention of mental illness and the improvement of treatment and care.

We have about 850 affiliates in our network organization, and this adds up to well over 1 million people who are members and supporters of the Mental Health Association.

I am particularly glad to be on the panel with the people who have already spoken, and I would like to say that we endorse the positions that have been taken by NARC and the Mental Health Law Project. But my statement addresses the problems of the mentally disabled SSI clients.

Approximately 30 percent of the 2.3 million disabled SSI beneficiaries are mentally ill. That is almost two-thirds. However, it is becoming increasingly difficult to establish eligibility for SSI on the basis of disability due to chronic mental illness. Reviews of individuals already receiving SSI because of this disability are resulting in arbitrary and inappropriate cutoffs from the rolls.

Also, SSI eligiblity plays a pivotal role in the process of moving those who are improved but still chronically mentally ill patients from institutions and into the community, and particularly since it brings not only cash assistance but eligibility for medicaid.

State mental hospital staffs from all over the country are reporting to us that there has been an increase in SSI denial rates and at the same time longer and more complex prerelease procedures. Community placements are far better if sufficient health and other support services are available to the patients.

An official of SSA in Maryland advised a social worker just not to bother to have psychiatric patients apply for disability unless the patient is, and I quote, "literally climbing the walls." Consequently, State hospitals continue to provide the least appropriate support in the most restrictive setting at the most costly placement for chronically mentally ill people.

Incidentally, this same official noted that he had 3,600 redetermination papers in boxes all over his office.

I encourage you to read the summary of the case histories of mentally ill individuals who have been denied SSI benefits. This is attached to our written statement. In fact, I encourage you to read

that whole statement. It is just crammed full of interesting and important information. It has our support of H.R. 5907 and H.R. 5911, and I think you will find the statistics very interesting.

Although the redeterminations of eligibility for individuals already on SSI have just begun, some States have already estimated the impact of these reviews. The Georgia Department of Mental Health reports that approximately 6,000 individuals will lose their SSI eligibility if the current practice continues. This will cost the State $3.5 million in medicaid and another $19 million in Federal aid for room and board for these clients.

According to Georgia officials, a significant number of these persons could be expected to be reinstitutionalized. Based on data from both SSI and SSDI redeterminations which have already taken place, it is apparent that a significant number of psychiatric patients who clinically manifest an inability to engage in consistent, substantial gainful activity are being denied disability benefits.

SSA officials in Chicago report that "individuals who our staff people consider to be obviously disabled, based upon observed bizarre and unusual behavior at interviews in the SSA district offices are then denied benefits." The basic problem for these psychiatrically disabled clients is that the Social Security Administration's procedural manual called POMS, which is never published for public review or comment, is extremely rigid.

A citizen in Georgia whose medical review clearly indicated that he was disabled failed to qualify for SSI. According to the POMS test—listen to this—it was because he could help his mother by going shopping, he had a girlfriend who came to visit him, he was able to operate a few simple household conveniences. This patient was described by a medical consultant as "a barely functioning, ambulatory, schizophrenic with a quite guarded prognosis." Yet he was terminated from the program in February. He committed suicide in March.

We urge the members of this subcommittee to require a full investigation of the allegations cited here. Necessary action must be taken to insure that the current practices of SSA are modified so that the intent of the law with respect to Federal benefits is clearly and fairly implemented on behalf of the mentally ill as well as other disabled citizens, and we pray that this is done as quickly as possible.

Hundreds of thousands of chronically mentally ill citizens are being denied benefits to which they are fully entitled. There is no economy in this charade. There is only hurt and fear and uncertainty. The chronic schizophrenic who wants only a small, safe, warm niche in the community where he can, when unavoidable, be his own disturbed self, may be forced back to bedding on the sidewalk and grubbing in the garbage cans. For the deeply depressed and chronically despairing patient who constantly debates the value of her life, withdrawal of SSI benefits can precipitate the most tragic withdrawal symptoms of all, suicide.

Most of these citizens will always live on the fringe of society as we know it, but you can rescue them from life in the basement of society.

As a volunteer and a consumer, I petition on behalf of millions of mentally ill persons, persons who couldn't be here today in this hearing room to petition on behalf of their own interests.

We ask for no special considerations, just benefits to which we are fairly and honestly entitled. And I thank you for this opportunity to share our concerns.

[The prepared statement follows:]

STATEMENT OF HILDA ROBBINS, GOVERNMENT AFFAIRS COMMITTEE, ON BEHALF OF THE NATIONAL MENTAL HEALTH ASSOCIATION

This statement is submitted on behalf of the National Mental Health Association (NMHA) a nationwide, voluntary non-governmental organization dedicated to the promotion of mental health, the prevention of mental illness and the improved care and treatment of the mentally ill. NMHA's 850 local chapters and statewide divisions and its more than one million citizen members and volunteers work toward these goals through a wide range of activities in social action, education, advocacy and information.

NMHA has in recent months received numerous communications from all across the country concerning the Social Security Administration's System for establishing disability for both the SSI and SSDI programs. It is clear to us that drastic changes have occurred in how such determinations are being made, and that these changes are in turn having a particularly damaging effect upon the mentally disabled. There are approximately 2.3 million disabled children and adults now receiving SSI payments. Of these, about 30% are classified as disabled due to mental disorders.

We are concerned about two problems. First it has become increasingly difficult to establish eligibility for SSI on the basis of disability for those chronically mentally ill persons about to be discharged from state institutions. Secondly, reviews of individuals already receiving SSI because of their disability are now being initiated in some states, and other states will begin such reviews shortly. Those SSI redeterminations that have taken place, and the redeterminations of disability for SSDI that have already taken place in large numbers, are resulting in arbitrary and inappropriate cutoffs from the rolls.

SSI INITIAL DETERMINATIONS OF DISABILITY

A number of states report increased difficulty in obtaining SSI eligibility for mentally disabled clients who might leave the hospital and live in community homes or other supervised living arrangements in the community. Such community placements are far better for the patient, if sufficient health and other support services are available to them, as well as far less expensive. SSI eligibility plays a pivotal role in the process, particularly since it brings not only cash assistance, but eligibility for Medicaid.

State hospitals around the country are noticing increases in the denial rates. One institution in Baltimore reports that no applications are being approved at the first try, and that most applications must be taken through all three levels of appeal. In one county in Maryland, as many as one third of the SSI applications are being denied, and one facility reports 14 patients returned to the institution from community placement because of denials and redeterminations. Even when benefits are finally approved, the process has been lengthened significantly and become far more complex than in past years.

One worker in this field commented that the new procedures are "seriously impinging our ability to move patients into the community appropriately".

An official of SSA disability determination services for Maryland advised a social worker who draws up SSI applications for state hospital patients not to bother to have psychiatric patients apply for disability (either SSI or SSDI) unless the patient is "literally climbing the walls". This official noted that he felt

under a great deal of pressure because of "about 3,600 redeterminations in boxes on my floor".

In the long term, this is going to be an extremely costly policy as well as a very inhumane one. For example, rehospitalization of a disabled person who could function in the community, according to staff of the New York Psychiatric Institute, costs the city, the state and the Federal government $100 - $500 a day; in contrast to the Federal disability payment of approximately $15 a day which will enable these individuals to live in their community.

Attached to this testimony is a summary of case histories of individuals denied SSI benefits, and who have therefore been unable to move into less restrictive community environments. I would like to specifically cite one of these case histories here, as it illustrates some of the particular problems for psychiatrically-disabled persons:

> A 35 year old white male with a history of severe bipolar affective disorder, manic type has been denied SSI. This man has never stabilized for more than a few months, and often becomes severely psychotic and delusional with manic episodes. In fall 1981, during a period of several month when he was more rational than usual, his case was reviewed and his SSI payments discontinued. Subsequently he decompensated, had a prolonged manic episode and had to be readmitted for treatment in hospitals in Virginia and New York.

This case illustrates one of the major problems of determining psychiatric disability: patients do not always manifest their symptoms during the brief period of time that a medical consultant or SSA official is examining them. For these reasons, data from the attending physician and the complete history in the patient's file should be given careful attention. Under the present pressure to reexamine thousands of new cases, the SSA system simply cannot do this.

REDETERMINATIONS OF DISABILITY

Although the redeterminations of eligibility for SSI recipients have only just begun in a few states, some states are already estimating the future impact of such reviews, if the current SSA practices, as evidenced by SSDI reviews, are continued. In Georgia, for example, the Department of Mental Health reports that approximately 12,150 chronically mentally ill individuals now receive SSI payments. If the denial rate, after review, is 50% (as it is in Georgia for SSDI clients), then over 6,000 individuals will lose their SSI eligibility, and with it their eligibility for Medicaid. This will cost the state $3.5 million in Federal Medicaid assistance, and $19 million in Federal aid for room and board for these clients. According to Georgia officials, a significant number of these individuals can also be expected to be reinstitutionalized if their support funds are cut off.

Based on data from the SSI redeterminations that have already taken place, and data from the SSDI program it is apparent that a significant number of psychiatric patients who clinically manifest an inability to engage in consistent substantial gainful activity

are being denied disability benefits. According to Chicago's Acting Regional Commissioner of SSA, SSA field offices are concerned because:

> "individuals whom (SSA field offices) consider to be obviously disabled, based upon observed bizarre and unusual behavior and interviews in the SSA district offices, are denied".

Large numbers of schizophrenic and other chronically mentally ill persons who have been receiving disability benefits for years are now being terminated. An SSA medical consultant has written that many individuals with serious residual symptoms (mostly persons with chronic schizophrenia) who have made a marginal adjustment to everyday demands of semi-independent living outside of a mental hospital are being denied benefits, unable to meet stringent new reviews of their impairments. This consultant pointed out that it is:

> "practically impossible to (meet the criteria) for any individual whose thought processes are not completely disorganized, is not blatantly psychotic, or is not having a psychiatric emergency requiring immediate hospitalization. In fact, an individual may be commitable due to mental illness according to the state's mental health codes, and yet found capable of 'unskilled work' utilizing disability standards."

Also attached to this testimony are a number of case histories, culled from an overwhelming number of examples which have come to the attention of disability advocates, which -- together with numerous contacts which Mental Health Associations across the country are receiving -- make it very clear to us that something is seriously wrong with the current system.

Clearly mentally disabled persons are being denied essential benefits to which they are fully entitled and this is supported by the extremely high rate of reversal at the appeals level. The basic problem for these psychiatrically disabled clients is that the Social Security Administration's procedures manual (POMS) is extremely rigid and is now being applied in a very strict manner. Furthermore, this manual is never published for public review and comment and no public scrutiny ensures that the document is fully compatible with the law and regulations. This strictness of the system is illustrated by a client in Georgia whose medical review clearly indicated that he was disabled. He was described as a "barely functioning ambulatory schizophrenic" with a quite guarded prognosis. Officials indicated that he seemed cleared disabled, but unfortunately he scored slightly too well on the POMS tests, because, among other things, he helped his mother shop, had a girl friend, and turned on the television. This individual was terminated from the program in February. He committed suicide in March.

RECOMMENDATIONS CONCERNING DISABILITY DETERMINATIONS

NMHA, other national disability groups and the Save Our Security Coalition have issued a report on the current reductions of

disability roles, and this report is today being entered in the record of these hearings by Jane Yohalem of the Mental Health Law Project. NMHA urges the Subcommittee to take a close look at that report as it presents an excellent summary of many of the problems with the current system.

NMHA and the eleven other national groups supporting the report on Arbitrary Reductions of Disability Rolls, urge:

- Congressional hearings, including field hearings, to address the full array of issues in the disability review process and in the procedures used to initially determine disability for SSI purposes;
- a General Accounting Office investigation of the Social Security Administration's practices with respect to determining eligibility so as to examine the immediate and long-range impact of current SSA practices on beneficiaries and on Federal, state and local governments;
- that beneficiaries be entitled to a full and careful review of the merits of their case by appropriately qualified professionals;
- that mentally disabled beneficiaries and those who are homebound be provided with personal assistance (and home visits if necessary) throughout the review process.

ADMINISTRATION'S NEW SSI PROPOSALS, AS OUTLINED IN BUDGET DOCUMENTS

The major changes proposed for the SSI program in the

President's fiscal year 1983 budget represent yet another effort to tighten up on the eligibility of disabled persons for SSI disability benefits. NMHA finds the following three proposals particularly objectionable:

- changing the definition of disability to require a 24-month, rather than a 12-month prognosis (which is especially hard to predict in cases of chronic mental illness);
- giving added emphasis to medical factors in determining whether an applicant for SSI benefits is disabled (functional criteria are crucially important in determining whether the chronically mentally ill can support themselves);
- eliminating the initial $20 disregard of income for all new recipients coming on the rolls after January 1, 1983.

The Department of Health and Human Services has estimated that these three proposals will affect 35,000, 80,000 and 300,000 individuals respectively. Given the Administration's current performance relative to the Continuing Disability Investigations called for in the Social Security Disability Amendments of 1980, we believe that enactment of any of the above proposals will only result in the denial of SSI benefits to many additional severely disabled persons with a genuine need for support.

We ask that you carefully assess the potential impact of each of the SSI proposals contained in the President's fiscal year 1983 budget. We also urge your immediate opposition to the three

proposals cited above.

PENDING LEGISLATION

NMHA supports both of the bills now pending before this subcommittee: HR 5509 which would limit the rate at which overpayments of SSI benefits may be recovered through adjustments in future benefits, where such overpayments were not the recipients' fault, and HR 5911 which excludes burial plots and burial insurance policies in determining an SSI applicant's resources.

CONCLUSION

NMHA urges the subcommittee to take a thorough look at the implementation of the disability criteria by SSA, and to take action to prevent inappropriate and arbitrary cut-offs from SSI as a result of overzealous application of SSA's internal policy manual.

IMPACT OF DENIAL OF DISABILITY FOR SSI APPLICANTS WHO ARE SERIOUSLY MENTALLY ILL

Compiled by
THE NATIONAL MENTAL HEALTH ASSOCIATION
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- A patient at Springfield State Hospital in Maryland, age 41, who has been continuously hospitalized for twenty years and has no vocational skills has been denied SSI eligibility. This man is a chronic schizophrenic, who also has diabetes mellitus requiring insulin injections which he cannot administer to himself. He was placed in a supervised living arrangement which provides 24 hour supervision, which is necessary to enable him to live outside the institution. Without SSI and Medicaid assistance, this individual does not have the means to survive outside of Springfield.

- A female patient in her thirties, diagnosed as having severe phobias (including agrophobia), depression and suicidal ideation has been repeatedly hospitalized. Her latest hospitalization lasted for a period of three years. Much of that time was spent in a locked environment, due to severe homocidal and suicidal behaviors. This individual was discharged into a group home, in expectation of SSI disability funding becoming available. However, SSI was denied, and she has since returned to the hospital. Staff working with her feel her anxiety about being abandoned was heightened by the denial.

- A female in her late twenties, hospitalized six years, who is frequently mute, poor reality testing and psychotic, was denied SSI benefits.

- A man who has been hospitalized six years with a diagnoses of chronic schizophrenia and who has loud verbal outbursts was denied SSI. This individual also has a hip injury that has reduced his mobility. Plans for him leaving the hospital have had to be delayed.

- A female in her late forties, diagnosed as bipolar disorder, hospitalized over twenty years, and who has had two heart attacks, a mastectomy that damaged left arm nerves that resulted in restricted use of the arm, and diabetes which requires daily insulin injections was placed in foster care in August 1981 while SSI was applied for. This application was denied and she was returned to the hospital. Another attempt is being made to obtain SSI payments for this patient so she can live in a community home.

- A 35 year old woman, diagnosed as having an affective disorder received disability benefits from 1976-77. She was then off the roles for one year but then was put back on again in 1978. In May 1981 she was informed that she was ineligible, since she has been able to do substantial gainful activity. She was in the hospital at the time the notice was received. She has been hospitalized 12 times since 1975, and is described as having symptoms of agitation, withdrawn behavior, depression, somatic preoccupation, anorexia, confusion, thought disorder, delusions, bizarre behavior, slow speech, inappropriate behavior, hallucinations, body jestures indicative of responding to voices, suicidal thoughts, loose association, and preoccupied behavior. She appealed the denial, but was turned down, however, she is pursuing the appeal.

- A 28 year old black female who was hospitalized eight times between 1976 and 1981 was turned down for SSI. She has an anxiety neurosis and has been diagnosed as having schizophrenia. Her history prior to her illness is very good. She quit

high school in 9th grade but received her G.E.D. and went for two years of junior college in Baltimore. She first started to become ill in 1975. She worked for one month as a clerk. She began to receive SSI after her fifth hospitalization in 1978.

She was cut off the roles in August 1979. She appealed and was turned down. She had a seven month hospitalization in 1980 after which she reapplied for SSI. She was turned down. According to her doctor she complained of not being able to see due to blurred vision and she was still having hallucinations. She reapplied for SSI, but was denied; in October 1980 she appealed, and had a hearing with an SSA consultant. She was still denied SSI. In December she was still hearing voices and thought that someone else was controlling her life. In March of 1981 she had another hearing which her attending physician attended. This time benefits were approved.

During the time she was without benefits, her hospital stays increased in length from six days on her first admittance to seven months on her 7th admittance. These were partly due to her financial inability to pay her rent and a down payment on an apartment.

- A 30 year old black female was hospitalized nine times between 1970 and 1981. She has never worked a single day in her life and yet she was denied SSI repeatedly. Due to acute psychotic episodes, during which she is extremely paranoid, she was considered by her doctor to be unfit to return to the community unless she could be placed in a supervised apartment. During the psychotic episodes she believes that people are trying to harm her and she will not eat or communicate. She has been known to lock herself in her apartment and arm herself and on one occasion she met a social worker at the door with a knife in her hand. She is extremely sensitive to antipsychotic medication which causes such severe side effects that she is unable to function. Therefore she is not able to be on a maintenance dose and is subject to the psychotic episodes. She was finally said to be eligible for SSI in January 1981 after appealing the denials.

- A 35 year old white male with a history of severe bipolar affective disorder, manic type has been denied SSI. This man has never stabilized for more than a few months, and often becomes severely psychotic and delusional with manic episodes. In fall 1981, during a period of several months when he was more rational than usual, his case was reviewed and his SSI payments discontinued. Subsequently he decompensated, had a prolonged manic episode and had to be readmitted to hospitals in Virginia and New York.

NATIONAL MENTAL HEALTH ASSOCIATION
1800 North Kent Street, Arlington, Virginia 22209

MENTALLY DISABLED CLIENTS INAPPROPRIATELY TERMINATED FROM FEDERAL DISABILITY INSURANCE PROGRAMS: CASE EXAMPLES

Compiled by Mental Health Law Project, Washington, D. C.

INDIANA

Susan Blue suffers from severe mental illness. She has been hospitalized more that 10 times in the last 15 years. Ms. Blue is able to live in the community with the assistance of community mental health center staff. Someone must visit her at least once each day to make sure that she remembers to buy food. Ms. Blue has periodically tried to work but has always been fired because of her psychotic behavior on the job. Despite medical evidence that she is severely disabled, Social Security officials notified her last month that in their opinion she could return to work. She has received her last benefit check.

KANSAS

Daniel Cole suffers from a severe mental illness, diagnosed as paranoid schizophrenia and requires treatment with large doses of the psychotropic drug Prolixin. Mr. Cole has been hospitalized at least six times for his illness. Before becoming disabled, he had been a truck driver. In January 1981, he tried to return to work, but his medication made him too drowsy to drive and, when he stopped taking the drug, he became disoriented and damaged one of the company's trucks. He had to stop working. The state vocational rehabilitation agency has refused to admit Mr. Cole to its program, finding him too disabled to work. However, Social Security officials terminated his eligibility in November 1981, on grounds that he had regained his ability to work the previous January as evidenced by his brief and unsuccessful period of re-employment. No current information had been requested, nor was Mr. Cole's treating physician contacted. In February 1982, an administrative law judge found that Mr. Cole had been improperly dropped from the disability rolls.

LOUISIANA

Bruce Brown is 11 years old. He has sickle cell anemia, complicated by an extremely serious nervous disorder. Bruce's condition makes it hard for him to take care of even his most basic physical needs. He receives monthly injections and has been placed in a special education class. Bruce's disability benefits were terminated in November 1981, without prior notice. Neither Bruce's parents nor his doctor were asked for information about his condition, nor was he sent to a consulting physician.

MASSACHUSETTS

Charles Lane has spent most of his life in a mental institution. Recently returned to the community, he lives in a rooming house and is able to get along only with substantial assistance. He remains hostile and has great difficulty relating to people. Moreover, Mr. Lane has never learned to read. On October 13, 1981, he received a letter from Social Security officials stating, "Because of your education, work experience and our evaluation of you, we find you ready to return to work." Mr. Lane's disability benefits were terminated on November 30, 1981. A legal services lawyer is helping Mr. Lane appeal his termination.

MINNESOTA

Hilda Christensen is mildly mentally retarded, with what is diagnosed as a "persistent paranoid personality pattern." She worked as a food handler and a home health aide, but was fired from every job. The local rehabilitation center evaluated her as not employable. Social Security officials, however, ignoring the overlay of mental illness on her mid-60's IQ, found that because she could dress herself and understand simple directions, she was not disabled. Her benefits were terminated and she is now existing on state general assistance money.

Catherine Mooney hallucinated throughout the examination by a Social Security doctor. Nevertheless, she was declared employable, even though, the report said, her "difficulty with hallucinations" is not helped by medication. Her benefits were terminated and she is now in the psychiatric ward of the local hospital.

MISSOURI

Joan Young has both epilepsy and a severe mental disorder. She spent her childhood in a state mental hospital and, although now living in the community, is periodically hospitalized in a regional treatment center. Ms. Young was

evaluated by a consulting psychiatrist hired by the Social Security Administration, who found her unable to relate to a supervisor or to other employees and to follow instructions, and therefore unable to work. Nonetheless, Ms. Young received a termination notice in April 1981. On the day her appeal was heard, she was too disoriented to find the building where the hearing was to be held. Carrying the name of her lawyer on a slip of paper, she eventually wandered into a legal services office. Other staff located the lawyer and assisted her in getting to the hearing. The administrative law judge found her "obviously disabled."

NEW YORK

Jane Rollen suffers from chronic schizophrenia. She has been hospitalized several times for her psychiatric illness. Until January 1981, she was homeless and slept in the streets of New York City. She now lives in a residential program. Ms. Rollen also suffers from severe back pain caused by an injury. She attributes her back pain to possession by demons. In November 1981, Social Security officials found Ms. Rollen employable. She is appealing this determination with the help of counselors at her residential program.

OHIO

Carol Jones has a severe manic-depressive illness for which she has been hospitalized twice. Her psychiatrist's report indicates that she is isolated and withdrawn. Her illness induces anxiety so severe that her vision is blurred, she experiences frequent daily episodes of lightheadedness and she is unable to concentrate. The psychiatrist's report concludes that she cannot perform the most basic work activities -- she cannot relate to fellow workers, has difficulty understanding and following instructions, cannot maintain attention long enough to perform simple tasks and is unable to deal with even minimal stress. Not surprisingly, Ms. Jones failed to file an appeal within the proper time limit. Her disability benefits were terminated. Ms. Jones subsequently obtained representation by a legal services attorney and is now seeking reinstatement of benefits.

PENNSYLVANIA

Fred Rowe is a chronic paranoid schizophrenic. To control his illness, he takes high doses of psychotropic medication. His condition is complicated by a spastic disorder which causes him to fling his arms around and a sleep disorder which leaves him drowsy much of the time, although he sleeps 16 to 18 hours a day. Mr. Rowe's 6'5" height, aggressive appearance and flailing arms present a threatening aspect to a potential employer. However, based simply on a review of his file, Mr. Rowe's disability benefits were terminated in November 1981. He was not interviewed by a Social Security official, nor was he sent to see a consultant. As a result of his loss of disability benefits, Mr. Rowe's condition worsened and he has been hospitalized. He is pursuing an appeal.

TENNESSEE

William Thomas suffers from severe mental illness. When he received a three-page form from SSA asking for information about his illness and medical treatment, he scrawled disturbed, accusatory notes in the margins and returned the form to Social Security officials. Eight months later, Mr. Thomas received a letter notifying him that his disability benefits had been terminated because of his failure to complete the Social Security form. Further, he was told he would be required to repay benefits he had received in the eight months between the time he received the form and the date of his termination notice. Mr. Thomas is now institutionalized at Moccasin Bend State Hospital. Thanks to the help of hospital social workers, he is back on the disability rolls.

TEXAS

Sidney Bell suffers from chronic schizophrenia, which is treated with frequent injections of Prolixin, an antipsychotic medication. Mr. Bell's intelligence tests at a low level. He rarely speaks and replies to questions with one-word answers. He lives in a boarding house. A Social Security consulting psychiatrist confirmed both the diagnosis of schizophrenia and Mr. Bell's poor adaptive and functional skills, but his benefits were terminated in March 1981. Thirteen months later, he still awaits a decision on his appeal.

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*All names are pseudonyms

Chairman FORD. Very good. Thank you, Ms. Robbins.
Mr. Freedman?

STATEMENT OF ROBERT M. FREEDMAN, STAFF ATTORNEY, INSTITUTE ON LAW & RIGHTS OF OLDER ADULTS

Mr. FREEDMAN. My name is Robert Freedman. I am a staff attorney with the Institute on Law & Rights of Older Adults at the Brookdale Center on Aging in New York City. I thank you for the opportunity of addressing the subcommittee.

I want to endorse what the panelists have said on disability; however, I want to focus on other SSI issues in my testimony. I find myself in a unique position today. I am coming down to testify in favor of some legislation. I came down to testify in favor of H.R. 5911, which was introduced by Congressman Stark and which will provide the opportunity for SSI recipients to establish a burial fund.

SSI resource levels, as you all know, are very, very low, $1,500 for an individual, $2,250 for a couple. It has been 10 years since they were set. They have never been increased. While the cost of living increase raises the eligibility levels for income, there has never been an increase for resources. The institute was down here 3 years ago testifying in favor of an increase in resources. None has come. It is very unlikely any will come in the near future.

One of the hardships of the intolerably low resource levels is that it deprives the elderly and the disabled of the dignity of making provisions for their own funeral. The $1,500 of exempt resources is required for their living expenses and nothing is left for the funeral and burial arrangements.

We constantly get questions in our office: Can I put money aside to pay for my funeral and burial arrangements if I go to apply for SSI? For the elderly especially this is a major concern. One of their primary reasons for saving funds was to be able to provide for a dignified burial. Now they are in the position of either leaving the family with the burial expenses or being subject to a pauper's funeral, or choosing not to accept the SSI benefits.

Currently there is no provision in the SSI program which would allow a recipient to put aside money to pay for burial arrangements. That money is counted as available resource, treated just as any other resource and often would result in the determination of ineligibility.

New York State has tried in the past to remedy this situation by allowing a burial trust. However, we found that to do so runs into conflict with Federal law and only through a change in the Federal law can this situation be remedied. H.R. 5911 would go a long way toward remedying this situation, and we have come down here to endorse that bill.

We have the one problem with the bill. The bill suggests a maximum amount of $1,500 for a funeral plan. However, it would give the Secretary the discretion to set a lower amount. We do not think the Secretary should be given that discretion. In the SSI program previously when homesteads were exempt, discretion was given to the Secretary to set a homestead exemption amount. He chose the amount of $25,000 which was unrelated to the reality of

the cost of homesteads and Congress had to amend the bill to remedy that situation.

I am afraid if we give the discretion to the Secretary again we will be caught in the same situation. The bill should just set the amount, $1,500, which though inadequate is a realistic figure in light of the budgetary constraints.

I would also like to address H.R. 5509, a bill which deals with the recovery of overpayments from SSI recipients who are without fault in causing the overpayment.

My statement which I submitted to be part of the record presents in detail our position on this. I would like to talk about a new client. She was 92 years old and did not speak English. Her home attendant called our office for her. The home attendant brought with her a notice from Social Security which stated that the client owed Social Security a little more than $300 and that if she did not send a check immediately her check would be reduced by $51 and some odd cents a month for the next 6 months until she paid back the overpayment.

The home attendant fortunately knew enough to bring it to our attention, and we are able to act on it. Most people would not be in that position; they would either pay the bill or would have the deduction taken from their SSI check. Why was this woman overpaid? Last summer she had to undergo emergency cancer surgery and was hospitalized for 1 month. Since she was in an institution for 1 month, during that month she was not eligible for SSI benefits. Therefore, Social Security claims that she was overpaid.

Her check during that month went to pay her rent and the expenses of keeping the home, because even though she was in the hospital the landlord was still requiring the rent to be paid. Now when she is billed for $300 she has less than $100 in resources and is surviving on the SSI income which in New York State is $328 a month. We contend that she was without fault in causing the overpayment. She certainly has no resources to pay this money back.

The bill which was introduced was designed to protect people in this situation but I am afraid does not do so. H.R. 5509 only applies to people who are found to be without fault. In this case, for this woman to be found without fault, she will have to request an appeal and a hearing of the determination that she has been overpaid. The woman is 92 years old and speaks no English. If it wasn't for a home attendant contacting our office, the overpayment would have been just taken out of her check. In this situation we may be able to assist this woman. In most situations there is no possibility of anyone requesting that hearing. So whether my client was without fault or not the money would have been taken out because she would not have had the opportunity to prove that she was without fault.

We think this is a misallocation of the burden of proof. The burden should be upon Social Security to prove that my client was at fault in causing the overpayment.

My client and others should at least have been given an opportunity to prove that they are without fault before there is an attempt to recover the money.

In addition, if a person is without fault, the bill, H.R. 5509 would allow a recovery of $10 or 25 percent of the income, whichever is

more. My client could not afford to pay back anything with under $100 in resources, and an income of $328 a month. She does not have the money allegedly overpaid. That money was spent on her rent a year ago.

We do not think there should be any recovery from an SSI recipient who has overpaid and was without fault in causing the overpayment.

The current regulations actually provide for that. Under current regulations there would be no recovery from this woman because to do so would defeat the purpose of the SSI program which is to provide her with the minimum amount, and it is barely a minimum, on which to survive.

We are afraid that H.R. 5509 might be interpreted as more restrictive than the current regulations. What we would like to see is a bill which would address this problem, but do so by requiring a hearing before any recovery is made from an SSI recipient. And a bill which would allow a total waiver of recovery from any SSI recipient who is without fault.

I would like to comment on two last issues. I want to add the institute's voice to the opposition to proposals which would eliminate the mandatory pass-through of the SSI cost-of-living increases. This would result in a definite loss of income for SSI recipients. We also oppose the elimination of a $20 deduction from earned or unearned income. I cover these proposals in more detail in my remarks.

Thank you very much for hearing me.

[The prepared statement follows:]

STATEMENT OF ROBERT M. FREEDMAN, STAFF ATTORNEY, INSTITUTE ON LAW AND RIGHTS OF OLDER ADULTS

My name is Robert Freedman and I am a staff attorney with the Institute on Law and Rights of Older Adults which is a unit of Brookdale Center on Aging in New York City. It is an organization which trains social workers in government benefits so that these workers may assist the elderly in dealings with the public entitlement system.

A major area of focus for the Institute on Law and Rights of Older Adults is the Supplemental Security Income Program-SSI. Today we wish to testify on two SSI bills HR 5911 and HR 5509.

The Institute on Law wishes to endorse HR 5911 which would allow SSI applicants and recipients to set aside money to provide for their burial.

SSI resources levels are low: $1500 for an individual $2250 for a couple. These amounts were set in 1972-10 years ago. And despite rampant inflation, they have never been increased. In 1979 the Institute testified before this committee for an increase in resource levels, no increase has yet come. It is still needed.

One of the hardships of the intolerably low resource levels is that it deprives the elderly and disabled of the dignity of making provisions for their own funeral. The $1500 of exempt resources is often required for living expenses, and nothing is left for funeral and burial arrangements.

A question often asked of social workers and attorneys by potential applicants for the SSI program is: "Can I put money aside to pay for my funeral and burial arrangements?" Unfortunately, the answer to that question, under current law, is, except for few exceptions: "no".

The elderly, especially, are concerned about providing for a dignified burial. The incentive many elderly had to accumulate a small savings was to have sufficient money to allow a proper funeral and burial. They dread burdening the family with their burial, or worse, being subjected to a pauper's funeral.

Currently, there is no provision in the SSI program to allow an applicant for or a recipient to provide for his/her burial arrangements, money set aside for burial is counted as available and treated the same as any other resource. It may result in a determination of ineligibility for benefits. Elderly are forced to chose between providing for their funeral costs and receiving the SSI benefits they need to survive. No person should be required to make such a choice.

HR 5911 would go a long way toward remedying this situation. The Institute on Law heartedly endorses it.

We do have the following suggestion. Congress should determine the value of the burial plot and funeral plan which will be considered an exempt resource. The valuation should not be left to the discretion of the Secretary. When Congress exempted homesteads under the SSI program, the maximum value of the homestead was set by HHS at an absurdly low figure unrelated to the reality of homestead costs. Congress was forced to amend the law to have the Secretary comply with Congressional intent. This procedure should not be repeated. The maximum amount should be set by Congress initially in the statute.

The suggested amount of $1500 for the funeral plan should be incorporated into the statute. The Secretary should not be given the discretion to set a lower amount. The costs of burial plots and of funeral arrangements are rising with inflation. The resource limit in this exemption should be adjusted automatically in tandem with the cost of living adjustments in benefit amounts.

OVERPAYMENTS

We also wish to address HR 5509.

HR 5509 attempts to address a very serious problem area in the SSI program: The effect upon SSI recipients of the recovery of overpayments. However, we do not feel HR 5509 will alleviate this problem. Therefore we do not support its enactment.

The intention of the proposed legislation is to ease the repayment terms of SSI recipients who have been overpaid, and were without fault in causing their overpayment. While the intention of the bill is laudable, it fails to attack the central problem: the attempt by the Social Security Administration (SSA) to recover the overpayment before SSA determines whether or not the recipient was at fault. Recovery is sought as soon as the overpayment is discovered. First SSA requests the SSI recipient to repay the alleged overpayment in full. Then, if repayment is not, made SSA reduces, often by a substantial amount, the recipient's SSI benefits. This is done despite the fact that the recipient might have been without fault in causing the overpayment and that the recovery might defeat the purposes of the SSI program. If these two conditions are present, recovery of the overpayment should be waived.

SSI recipients have resources under $1500 and income often less than $300/month. They can not afford to meet

Social Security's repayment terms.

The proposed bill, HR 5509, recognizes the problem and is an attempt to ease the repayment terms of SSI recipients. However since it only applies to those recipients already determined not to be at fault in causing the overpayment it would not solve the problem which is currently plaguing SSI recipients: the recovery of overpayments before the determination of fault is made.

The recovery of overpayments from SSI recipients occurs as follows:

1. Social Security notifies the recipient that he/she has been overpaid and requests refund of the alleged overpayment immediately.
2. If the alleged overpayment is not refunded within 30 days of the notice, Social Security begins withholding monthly benefits to recover the alleged overpayment. The recovery is usually made by a substantial withholding from the check.
3. If the recipient requests a reconsideration within 60 days of the notice, Social Security will reconsider the decision.
4. If the recipient requests a reconsideration within 30 days of the notice, Social Security will not withhold monthly benefits until a reconsideration decision is made.

5. If the recipient requests, Social Security will sometimes adjust the rate of withholding monthly benefits.
6. If during reconsideration the Social Security Administration determines the recipient was not at fault in causing the overpayment, then SSA may waive recovery of the overpayment.

HR 5509 only addresses the last step: what occurs after a determination that the recipient is not at fault in causing the overpayment-new payment. Under the current practice, if the SSI recipient is found to be without fault, then recovery of the overpayment is usually waived in its entirety. This is done because the recovery would defeat the purposes of the SSI program since it would deprive the recipient of the minimum level of income required to live on, as set by Congress. This practice is in compliance with the requirements of 42 USC §1383 (b) and 42 CFR §416.553.

Current practice and regulations usually waive recovery in its entirety from SSI recipients who were without fault. HR 5509, which allows some recovery from SSI recipients, though limited in amount, could be misinterpreted as Congressional intent to increase recovery efforts against SSI recipients. This could cause SSA to recover overpayments despite the recipients lack of fault and the fact that such recovery would defeat the purpose of the SSI program.

It is the Institute's recommendation that HR 5509 not be passed into law as is. It should be amended to forbid all recovery from SSI individuals who are without fault in causing their overpayments.

SSI recipients should not be penalized for actions which were not their fault, particularly since such recovery requires them to live at an income level below what Congress considers a minimum level necessary for survival.

Even if HR 5509 is amended and passed as we recommend, this will still not solve the major problem: SSA's attempt to recover overpayments before a determination of fault is made.

In order to have the recovery waived or the rate of recovery reduced, the recipient must initiate an appeal. Many aged, blind, and disabled individuals are incapable of initiating this action; many SSI recipients may be physically impaired, frail or handicapped. Many are incapable of arguing their appeal particularly if such argument must be made in writing. Therefore the benefits of the current law and HR 5509 are not available to most SSI recipients even those not at fault in causing the overpayments. The frail aged, blind, or disabled lack the ability to help themselves and are unable to attain help from others.

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What is required to solve the problem is legislation which would require an investigation and a determination of fault before any overpayment could be recovered from an SSI recipient. It is unfair to place the burden for initiating the inquiry and proving lack of fault upon the recipient who is aged, blind or disabled and is unable to shoulder that burden regardless of the merits of his position. The burden should be upon the agency to prove the recipient's fault. Before any recovery of an overpayment is made, a decision as to the recipient's fault in causing the overpayment should be made, and the recipient and/or his representative must be given an opportunity to orally present the arguments why the recipient was without fault.

The Institute's two recommendations are:

1. Before any recovery is initiated the agency shall have the burden of proving that the recipient was at fault in causing the overpayment. The recipient must be given the opportunity to appear and explain why he was not at fault;

and

2. There shall be no recovery from SSI recipients who were without fault in causing their overpayment.

The Institute also wishes to comment on two other SSI issues.

The Institute opposes both changes which are designed to reduce SSI benefits.

We oppose the elimination of the $20/month deduction from earned or unearned income.

This provision would result in a $20/month reduction in benefits to all SSI recipients who have any source of income other than SSI. Common sources of income would be Social Security, Veteran's Benefits or help from the family. It would reduce benefits when inflation is creating greater needs. SSI recipients can not afford a reduction in benefits.

We also oppose the elimination of the mandatory state pass-through of federal cost of living increase.

Currently many states which pay a state supplement do not increase that supplement to provide for a cost-of-living adjustment. Because of inflation, many recipients are actually losing "real" benefits. The mandatory pass-through guarantees that the affected states at least pass on the federal cost-of-living increase, rather than make reductions in the state supplement. It is important that this continue to be required. Many states are very pressed for funds, and would reduce SSI benefits if not required to pass through the increase. Poverty among the aged and disabled is a

national issue, and Congress can not allow the states to reduce benefits at this time.

Congress by establishing the SSI program recognized the desperate need of poverty stricken aged, blind, and disabled Americans. They are often unable to help themselves. It is important to continue our commitment to helping them, and not to abandon them in this time of need.

Thank you

Chairman FORD. Thank you very much, Mr. Freedman.

Mr. Stark?

Mr. STARK. I wanted to say to the panel something that I heard before the chairman was able to get here. There are a lot of questions and a lot of concerns. We will probably hop on to the next panel, because the chairman and I are going to be summoned around 4 to a meeting to discuss many of these problems.

I think, suffice it to say that we hear an awful lot and in some cases see cases of cheating both by providers and by people who would try to convince you that their bad back or dermatitis or some other obscure problem prevents them from working while they do work illegally for cash.

My theory is that that is a decision that becomes very political. Which side are we going to err on? Are we going to err on the side of knocking a whole bunch of people who are deserving off the roles to get at a few who break the law or vice versa?

Certainly, I think this member, and I am sure many of the other members of this committee feel we must err on the side of providing minimal care for these who have absolutely no resources. I believe the Internal Revenue Service and other types of police agencies find the tax cheater, and they will get there soon enough is my theory.

I am sure the Chair and the staff of this committee are concerned with your concerns and we will see if we can correct the problems which you have brought to our attention.

Thank you all of taking the time.

Thank you, Mr. Chairman.

Chairman FORD. Thank you to each member of the panel. Thank you very much.

Our next panel is Miss Carol Grossman, national president of the Women's Equity Action League; Miss Evan Bayer, American Jewish Committee; and Professor Morand, director of the Pennsylvania Center for the Study of Labor Relations, Indiana University in Pennsylvania.

Is Miss Grossman here?

Ms. BAYER. No.

Chairman FORD. Mrs. Bayer, you are recognized at this time.

STATEMENT OF EVAN BAYER, URBAN AFFAIRS SPECIALIST, AMERICAN JEWISH COMMITTEE

Ms. BAYER. Thank you. The American Jewish Committee is a human relations agency committed to the advancement of social justice for more than 75 years, a national organization of approximately 40,000 members. We are especially interested in the intergroup aspects of public policy. We therefore welcome this opportunity to express our views on the subject of using unemployment insurance to supplement voluntary work-sharing.

For more than four decades, the American Jewish Committee has been committed to helping eliminate discrimination and achieve full civil rights for all Americans, regardless of race, religion, age, sex, or national origin. Together with other Jewish organizations, the labor movement and black groups, we campaigned for and won fair employment practice laws in many States after World War II and the Civil Rights Act of 1964, including a program for equal employment opportunity. Experience soon demonstrated, however, that the legal requirement of nondiscrimination by itself was not sufficient to erase the accumulated burdens that have been imposed on the disadvantaged in America who have historically suffered from systematic discrimination.

Therefore, the American Jewish Committee, the NAACP, the National Urban League, unions, and other Jewish, Catholic and Protestant groups called upon Federal, State, and local governments to mount special programs requiring employers and public and private institutions and corporations which received Government funds to undertake affirmative action programs that would recruit, train, and upgrade those who have been historically disadvantaged or discriminated against by reason of race, religion, national origin or sex.

The American Jewish Committee believes that full and fair employment for all is an essential ingredient of a democratic society and that a democratic government can have no more urgent goal than to assure to all its citizens the opportunity for gainful and dignified work.

There is no more important time than now, when the unemployment rate has reached its highest point since World War II and minorities and women are disproportionately affected, for the Federal Government to consider solutions to the painful and costly unemployment problems besetting our country.

We commend Representative Patricia Schroeder for her diligence and insight in introducing legislation to offer alternative approaches to layoffs, the Short-Time Compensation Act of 1982, H.R. 5904.

The concept of voluntary worksharing provides a fair and effective alternative to layoffs caused by cyclical downturns in the economy. It is not a few idea. There are numerous examples of union and nonunion employees who have chosen to divide the available work such as in the apparel industry, reduce others such as steel,

construction, and some communication and media industries or take voluntary furloughs in some of the airlines.

But such voluntary solutions to a painful problem are inhibited by the lack of flexibility in the unemployment insurance laws. The American Jewish Committee believes that legislation such as the Short-Time Compensation Act is needed to encourage States to provide for partial unemployment benefits to individuals whose work weeks are reduced pursuant to an employer plan under which such reductions are made in lieu of temporary layoffs.

Changes in State unemployment insurance laws would allow an employer with the workers' and unions' consent, to share among the work force the reduced amount of work available rather than lay off individual workers.

Instead of laying off 10 of the company's 50 employees because of a temporary slump in the market, the employer could put all 50 on a 4-day week with each worker eligible to claim one day of unemployment compensation.

Short-time compensation programs already exist in California, Arizona, and Oregon and several other States are interested in this approach.

Federal support for these programs could speed up the process of their consideration and implementation.

The American Jewish Committee supports the concept of work-sharing because we believe it is consistent with our basic goals and policies. A program such as the ones being implemented in California, Arizona, and Oregon provide the following advantages:

It allows more minority and women workers, usually last hired and first fired, to retain their jobs. This helps preserve the results of affirmative action employment programs that firms have undertaken in recent years.

It would maintain a fringe benefit such as health insurance, life insurance, and pension rights that are dropped with unemployment. It enabled workers to continue accumulating job skills without serious interruption and provides an opportunity for older workers to trade work for increased leisure while retaining needed seniority and benefits.

It maintains productivity because of higher morale and preservation of employee skills. It avoids the hiring and training costs incurred when economic conditions improve. It would reduce tensions between groups in the work force. It would reduce the public assistance expenditures needed for unemployed workers and it minimizes the social costs of unemployment in terms of added medical expenses and possible increases in the rate of crime, mental breakdowns and similar trauma.

It also is voluntary and we think that that is very important. It encourages cooperative relationships between union and management toward a mutual benefit.

Finally, at a time when there is significant debate about the appropriate roles for Federal and State government, the American Jewish Committee considers it relevant to discuss the central responsibility of the Federal Government for solving the unemployment problem in the country.

We realize there is no quick fix for the current economic conditions, but we believe that the Federal Government must begin to

make some effort to explore various alternative solutions to the problem by creating the incentive and working with the States to help them develop through experimentation and evaluation the most effective programs. The Federal Government will be exercising a leadership role, while at the same time, providing flexibility for meeting local needs.

Short-time compensation is only a stopgap program, not a full solution, but it would reduce intergroup tensions and bitterness and would stimulate many employers and unions to combat the misery of total layoffs for some and would reveal to the world that America can be innovative in caring for people.

Chairman FORD. Thank you very much.

I don't know whether you were here earlier when Congresswoman Pat Schroeder testified on behalf of the legislation this morning. Yesterday, we had several to testify in support of the legislation that you had reference to in your testimony today, and I would like to thank you very much.

Ms. BAYER. Thank you.

Chairman FORD. Mr. Morand.

STATEMENT OF MARTIN J. MORAND, DIRECTOR, PENNSYLVANIA CENTER FOR THE STUDY OF LABOR RELATIONS, INDIANA UNIVERSITY OF PENNSYLVANIA

Mr. MORAND. I will make four basic points. First, I have spent the last few years studying short-time compensation. What is to me its most significant virtue is the improvement in labor-management and worker-employee relations that I have seen in dozens of instances where it has been tried.

In 35 years, as a student and practitioner in labor relations, I have never seen another program which was so enthusiastically responded to by workers, by employers, and by unions.

Second, short-time compensation is demonstrated to work best where workers are asked and not ordered to participate. American manufacturing takes a beating in world competition at least partly because American workers too often are insufficiently consulted by and about their enterprise.

All workers, union as well as nonunion, should be consulted before an STC plan is approved. This would be good for the workers, for their employers and for the country.

H.R. 5904 "Statement of Purpose" is "to provide partial unemployment benefits to individuals whose work weeks are reduced" by encouraging the States to "experiment." Yet, my California research indicated that there was unnecessary rigidity in the program.

Problems were created and potential advantages were lost because of an anachronistic requirement that bears no relationship to the group process of a short workweek system such as STC.

In California because of Federal standards, all the workers in the unit must be reduced the same number of hours in each week. This discourages some of the most creative applications of worksharing that I have seen.

For instance, Santa Clara County, Calif., and the Service Employees International Union have a plan. It is a voluntarily re-

duced work hours plan. They decide that they need to save 10 or 20 percent of the worktime of the group, but then they accept some mix and match, some volunteering. Some take 20 percent, some take 30, some take none. As long as the employer and the workers can meet their budget and income needs, this should not be discouraged by the law.

But under present Federal standards, if some workers volunteer for greater reductions so that others may take lessor cuts, they are declared to have quit rather than to have been laid off. Because, it is argued, they are not unavoidably unemployed they are deprived of unemployment benefits.

Fourth, let me relate a Catch-22 problem that has arisen very recently in my State of Pennsylvania at least partly because our rigid UI laws do not permit meaningful partial unemployment insurance benefits to be combined with partial workweeks.

Our Bureau of Vocational Rehabilitation had responsed to sex discrimination complaints by implementing an effective affirmative action program which increased the percentage of female employees to 27 percent.

Recently a seniority-based furlough reduced this percentage to 23 percent. A woman's law reform project filed suit in Pennsylvania's Commonwealth Court, claiming that the disparity impact of the layoff violated the Pennsylvania constitution's equal rights amendment.

In response, the State has recalled 17 females to restore the 27-percent ratio and fire 17 males—including black, disabled, and older males—who are more senior. You can imagine the intergroup tension, the bitterness, the group and individual conflict situations this encourages.

We must start to fully calculate the fiscal, the political, the social, medical, psychological, et cetera, cost of unemployment. One of the major things that STC is going to give us is not just a benefit to the worker, not just a benefit to the employer, not just a benefit to the unions or to the community. For the first time, we will have an alternative to simplistic layoff and by having an alternative, by having an option, we may stop and think before we lay people off. That thought process will encourage us to examine something that we have not looked at carefully for a couple of generations; namely, the full costs and consequences of layoff. In some instances it may lead us to conclude that it is going to cost us more than we are going to save.

There is a study to that effect conducted by New York State which actually indicates that there is more cost to the employer, particularly the public employer, in the first year of layoff than it is saving.

Finally, let me add that I come from a State where we suffer from an outmigration of young workers. One of the reasons for this is that the first job that the young worker gets is also the first job from which as a junior employee, he gets laid off.

At this point, he makes one of two decisions. Either he moves out of the State or he moves out of the regular economy to the underground economy—or underworld economy.

The opportunity for STC to preserve young workers jobs is a previously unmentioned benefit of short-time compensation.

Thank you.
[The prepared statement and additional material follow:]

Statement of Professor Martin J. Morand, Director, Pennsylvania Center for the Study of Labor Relations

My name is Martin J. Morand. I am a Professor in the Graduate Department of Labor Relations and Director of the Pennsylvania Center for the Study of Labor Relations, both located at Indiana University of Pennsylvania. Together with my colleague, Dr. Donald S. McPherson, I have been investigating the topic of Short-Time Compensation (STC, also known in California as Work Sharing Unemployment Insurance of WSUI) for several years. During 1980 and 1981 I conducted field studies in California which are reported in our paper, (attached) entitled: "Union Leader Responses to California's Work Sharing Unemployment Insurance Program", presented to the First National Conference on Work Sharing Unemployment Insurance, San Francisco, California, May 14-16, 1981. In addition to investigating the attitudes and experiences of union leaders, I interviewed many participating employers in California. A follow-up study of non-participating union leaders in California confirmed our findings of strong support for STC as did a study of attitudes of workers, employers and union leaders in Arizona.

These and related studies which I will cite, lead to a strong recommendation for passage of H.R. 5904. I regard prompt passage as so important that I would not suggest changes which could delay the Bill's adoption. But two recommendations are so consistent with the Bill's purpose of encouraging experimentation and flexibility and so useful to both labor and management that I do not hesitate to recommend them.

Recommendations

I. H.R. 5904 should be passed.

II. H.R. 5904 should encourage states to require consent to the STC plan from a majority of the employees in each affected work unit whenever they are not represented by an exclusive bargaining agent.

III. H.R. 5904 should encourage flexibility and voluntarism by not requiring a rigid uniform reduction of hours for all employees.

Rationale

I. Our research strongly supports the comments on the value of STC offered by the Hon. Patricia Schroeder (Extension of Remarks, Congressional Record, March 18, 1982). There is, however, one major issue which she does not mention. A most important finding of our California study is summarized in the Newsletter of the National Council for Alternative Work Patterns as follows:

> ..... a significant improvement in union-management cooperation..... unions and management learn how to work together better.....the dramatic change was in workers' attitudes towards employers, with nearly four-fifths of the respondents indicating a positive WSUI effect on worker management relations.

One of the unanticipated effects of work sharing is a long term improvement in labor management relations growing out of shared decision making.

II. The second recommendation is based on one of the findings in our study and a suggestion made at the San Francisco Conference. We found that work sharing was popular "because members were asked, not ordered, to participate." We reported to the Conference, "the reason this works...is that...it can't be imposed..." Following our oral report, a suggestion was made by Dr. Frank Schiff, Vice President of the Committee for Economic Development, that consideration be given to encouraging consultation with the workers of non-unionized companies. We are becoming increasingly aware of the extent to which America's losses to world competition arise because American workers are insufficiently consulted by and about their enterprise. I conclude that consent from the workers is not only in their interest, but the employers' and the nation's interest.

III. The recommendation on flexibility and voluntarism flows directly from the Bill's Statement of Purpose "to encourage states to provide partial unemployment benefits to individuals whose workweeks are reduced." (emphasis added), and Sec. 3 (a) (4) "states are encouraged to experiment." Our California research uncovered unnecessary problems arising out of the requirement that all workers in an affected unit be required to have the exact same reduction in hours of work. This both creates problems and prevents some of the major potential advantages of STC from being realized.

An example of the problem is the concern of the older worker, close to retirement, whose lifetime pension will be adversely affected by his or her final average salary during the period when earnings would be reduced because of the short-time schedule. Employers and unions in California searched for and found creative ways of coping with such exceptional problems by providing a different sort of work -- such as cleaning the grounds -- during days when others were off or by offering such older workers priority on overtime during the post-slow period. But the law should more simply permit what it has no reason to deny.

An example of a potential advantage lost is illustrated by the very creative agreement between Santa Clara County California and the Service Employees International Union. This agreement provides for a Voluntary Reduced Work Hours plan. However, such voluntarism through which one employee might have a 10% hours reduction, another 20% and a third no reduction, is not permitted under the California law.

It should be noted that this recommendation, like STC in general, will not cost any more in unemployment insurance but merely allocates the same funds more efficiently. (Further information on the Santa Clara/SEIU plan can be found in New Work Schedules in Practice, by Stanley D. Nollen, Van Nostrand Reinhold Company, 1982.)

Worktime reductions and job sharing to preserve jobs occur without the benefit of Short-Time Compensation, as the attached report on McCreary Tire Company and the United Rubber Workers demonstrates. This plant's three shift operation adapted well to a two week on - one week off rotational schedule. Had they gone to a three or four day week, rigidities in the partial benefit system of unemployment compensation would have precluded payments to the workers, something neither the company nor the union wanted.

Other employers and unions agree to schedule weeks off rather than days off in order to preserve the work force while preserving worker eligibility to unemployment benefits. But for many employers, there are enormous administrative and production problems inherent in such strained scheduling. It is hard to respond quickly to a sudden increase in orders in the midst of a schedule cycle designed to give 20% of the workers every fifth week off. Dividing the work force in this fashion also disrupts productivity, carpooling and personal relationships. Employers assert that bumping, transfers or other changes in the personnel on the work team hurts the productivity not only of the added workers but of the entire group. STC permits employers and employees to enjoy the benefits of employment stability without the awkwardness of week-about scheduling.

STC is not a panacea but it does offer a creative response to the allocation of limited jobs. In the long run, the chief beneficiaries of STC may not be the affected employers or employees but rather our society as we have an opportunity to measure the full costs and benefits of layoff versus employment stability. A full appreciation of the benefits of STC is impossible precisely because the true costs of layoff, direct and indirect, have never been adequately measured. There is ample evidence that

the poorer you get, the sicker you get -- the sicker you get, the poorer you get, but the individual and social costs of this one layoff-related phenomenon remain uncounted. Thus, preserving health insurance is one of the immediate virtues of STC and encouraging further research on the real costs of layoff is its major long term benefit. STC is stimulating research at the Pennsylvania Center for the Study of Labor Relations at Indiana University of Pennsylvania on the costs of layoff to the firm and on union responses to seniority versus sharing. Passage of H.R. 5904 will provide immediate advantages to affected workers, employers and unions and contribute to our further understanding of the consequences of layoff -- a phenomenon which we have for too long passively accepted.

UNION LEADER RESPONSES TO CALIFORNIA'S WORK SHARING UNEMPLOYMENT INSURANCE PROGRAM

A Working Paper*

presented to

First National Conference on Work Sharing Unemployment Insurance

San Francisco, California

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by

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Unemployment is not a uniquely American phenomenon but in no other developed nation is it so passively accepted. Unemployment Compensation, a New Deal developed band-aid, provides temporary first aid for certain victims of layoff. As presently administered in most states these compensation laws serve to legitimize and institutionalize unemployment and inhibit exploration of alternatives to layoff.

The workers who draw the benefits designed to compensate for a fraction of their lost earnings are the passive recipients of reduced work schedules. The employers order the reductions but do so in response to market changes in demand for their products and the labor which produces them. The unions assume that work time reductions are beyond their bargaining reach and therefore negotiate how rather than whether they will occur. Workers feel torn between periods of overwork and underemployment but react to the problem in terms of, "Why me?", not, "Why anyone?". Employers would much rather have a stable, loyal workforce and avoid the high costs of recruiting, selecting, training, start-up and overtime which are frequent concommitants of layoff. Unions, by law and nature, represent collectives but bargain layoff systems which place them in the unenviable position of representing individuals competitively -- protecting Peter's job at the expense of Paul's. Labor and management approaches to unemployment sometimes conflict, they often coincide, but neither assume there is anything they can do at the firm level to avoid unemployment.

Part of the problem stems from the way we administer the unemployment insurance laws. The government has had, at least since 1946, an official policy of promoting full employment not only to benefit individual workers but to maintain purchasing power and prevent the negative and costly behaviors associated with joblessness. But government administration of unemployment insurance is designed to alleviate the pain, not to avoid the problem.

Unemployment checks provide an inadequate substitute for paychecks; the unemployed worker also loses crucial fringe benefits such as health insurance at precisely the moment his physical and mental health is most likely to deteriorate. The poorer he gets, the sicker he gets; the sicker he gets, the poorer he gets; temporary layoffs generate permanent poverty. His personal morale, family stability and social status are all adversely affected. The system focuses his attention on the weekly check and penalizes his efforts at self-help through part-time employment as it makes dollar-for-dollar deductions of earnings from benefits.

The employer suffers an initial business reduction which may become permanent if the reduced work force is unable to respond quickly enough to a temporary upsurge in orders. The longer the layoff the less likelihood that the expensively trained workforce will be available for recall. A major investment is lost; his unemployment taxes are raised at a time he can least afford them; instead of concentrating on improving business prospects his energies are focused on avoiding the tax increases which stem from the layoff and defending grievances or other charges that the layoff was discriminatory or otherwise improper.

The union is threatened not only with short range losses in dues income but with the demoralizing and disunifying effects of layoff on a work force in which some have lost their jobs and the rest feel threatened in theirs. Instead of focusing its energies on the causes of this affliction to the collective it represents it is busy responding to the way the condition impacts selected individuals. Its members are not all together at the work place; they are harder to find, organize and defend.

Public policy, at least since 1964, has proclaimed a concern to protect job rights of minorities and females, the workers most likely to suffer in any last-in, first-out system of handling human inventory. Public policy is so concerned with the extraordinarily high levels of unemployment among youth that radical proposals to reduce their minimum wages are offered, yet clearly layoffs hit younger workers harder.

An alternative to layoff is work sharing (or, more cynically, worklessness sharing). Employers, workers and unions have long known about and practiced worksharing. Unemployment insurance systems have generally discouraged it. One state has tried to encourage work sharing as an alternative to layoff.

The conventional wisdom is that work sharing will not be acceptable to unionized workers in the United States or to their unions. According to this myth, which is exploded by this research, organized workers have identified the concept of seniority with collective bargaining for so long that a proposal allowing for reductions by any means other than seniority-based layoff would be seen as an attack on a fundamental principle of the entire labor movement. This is not to say that opposition to work sharing by organized labor is a myth; the national AFL-CIO has expressed serious reservations, mostly based on fears for the seniority system. But this research will show that workers and their union representatives who have had an opportunity to experience work sharing will, given certain critically important conditions, support it -- many with

great enthusiasm.

Thus, when California became the first state to adopt Work Sharing Unemployment Insurance (WSUI) in 1978, it became a natural laboratory for testing hypotheses about worker and union reactions. Under Senate Bill 1471 adopted July 11, 1978, California employers are permitted to reduce the work week instead of reducing the work force subject to approval of the union where there is one. Each employee reduced gets a pro rata share of unemployment compensation. The California Employment Development Department offers the following example:

> Using a plan approved by the Employment Development Department, an employer might reduce the workweek of 100 employees from five days to four days instead of laying off 20 workers to achieve the same 20 percent reduction. All workers would continue to earn wages for four days of work and be eligible for unemployment benefits for the fifth (non-working) day. If the workers in the example were being paid $200 a week, their reduced work pay would be $160 and they would become eligible for 20 percent of the unemployment benefits to which they would have been entitled under a full layoff — a maximum of $89 a week. Therefore, a worker in the example could qualify for as much as $18 a week in unemployment benefits to add up to a $160 pay check — for a total of $178 compared to normal pay of $200.

The California law was adopted in hasty response to the passage of Proposition 13 and the anticipated layoff of thousands of public employees. A state bailout of local government resulted in the program being utilized primarily by the private sector. The end of the state surplus presages its extension to the public sector next year. The original law was sunset legislation and expires at the end of 1981. A proposal to extend the law for several additional years has been introduced and the initial favorable responses to WSUI suggests that it will be continued. Indeed, while California's WSUI program was first it certainly is not the last. Arizona has recently passed similar legislation and it has been formally proposed by the Governors of New York and Oregon. It is reasonable to assume that many more employers, unions, workers, and governments will be responding and reacting to this new alternative to reduction-in-force layoffs.

An understanding of the variety of ways in which unions responded to cyclical and seasonal unemployment in the past provides insight into the wide range of union reactions to Work Sharing Unemployment Insurance. The history of the American labor movement is to a large extent the history of the struggle for shorter hours. This struggle had many dimensions: simple resistance to

dehumanizing hours; desire for leisure for personal growth and family development; recognition that free time is a prerequisite to citizenship participation in a free society. But high on the list has always been the notion that shorter hours are the best antidote to unemployment. Samuel Gompers said: "As long as one man is unemployed the hours of labor are too long."

Those familiar with the history of unionism prior to the CIO know that seniority systems of layoff were notable by their absence and work sharing was the norm, particularly where unions controlled access to jobs through closed shops, apprentice programs, hiring halls, etc. As the outstanding labor historian of the early twentieth century, David Montgomery says in the chapter "Facing Layoffs" (co-authored by Ronald Schatz) in his book Workers' Control in America:

> 'Before the 1930's the seniority principle was seldom found in union rules or contracts, as they applied to layoffs. . . In the San Francisco strike of 1934 a rotary hiring hall was the central demand of the longshoremen.
>
> . . .with the industrial unions of the 1930's the seniority rule became so basic a part of American life that many workers today find it difficult to imagine any other principle as just. . . The power of foremen to pick and choose which worker should stay and which should go was challenged by a determined struggle to impose a clear, objective standard on layoffs. . . Often these clauses were not far removed from what the companies had already been doing in practice, but they eliminated the arbitrariness which had characterized that practice when it rested entirely on the companies initiatives.'

Summer Slichter in his classic Union Policies and Industrial Management searched for layoff provisions in 400 contracts negotiated between 1933 and 1939. Of the 290 which deal with the layoff issue, 69 call for seniority, 97 combine seniority and ability, 4 call for union membership preference and all the rest (120) require some form of equal division of work.

The post World War II period saw a decline in union interest in reduced hours and an end to the historic reduction in the workweek during employment slowdowns. Some of this shift in emphasis is undoubtedly brought about by the availability of unemployment compensation and welfare support systems. The effect of tax bracket creep which increasingly subjects wages of ordinary workers to income and social security taxes; higher transportation costs for getting to work; increasing female participation in the work force leading to child care expenses; and the multi-earner family have all contributed to renewed interest in shorter work weeks.

Despite the CIO-stimulated emphasis on seniority based layoffs and

unemployment programs which discourage short work weeks, union contract emphasis on work sharing as an alternative to layoffs continues to be strong. A U.S. Department of Labor study of major collective bargaining agreements in 1972 found that of 1,845 major collective bargaining agreements covering 1,000 workers or more (nearly all agreements of that size in the U.S. except for railroad, airline and government), just under 25%, covering 36% of the workers, provided for work sharing. Manufacturing agreements made up only 55% of those studies but accounted for 77% of the work sharing clauses and about the same proportion of workers. Work sharing provisions had a relatively high prevalence among single employer agreements and those applicable in the northern and eastern portions of the country. Most large unions, including the Steelworkers, Auto Workers, ILG, and Communication Workers had negotiated work sharing provisions. (It is useful to note that this study was conducted prior to the economic downturn of 1974-75 and the subsequent national problem of high inflation with high unemployment.) Three-fourths of all the agreements providing for work sharing stipulated a reduction in weekly hours during slow periods.

Nor is the presence of a contract clause providing for seniority-based layoffs sufficient to prove that layoffs are indeed practiced in lieu of work sharing. Our interviews with union officers and an examination of arbitration cases reported by the Bureau of National Affairs for 1968 through 1980 leads to the same conclusion -- the presence of a seniority layoff clause is not always a guarantee that a reduction in hours is a contract violation. When the contract merely provides for seniority as a criterion if there is a layoff and does not require a scheduled work week, a reduction in hours may not be a contract violation.

Sampling and Methods for the Survey of Local Union Officials

Two samples were drawn for the study of local union officials' views toward Work Sharing UI. Both samples were drawn from a complete list of all organizations with collective bargaining agreements which were certified to use the program as of December 31, 1981 (N=169). The first sample was a non-random sample that simply included every firm that employed 100 or more workers (N=23). This sample was drawn to assure the reliability of responses from "large" organizations. The second sample was a stratified random sample drawn from the same population but restricted to firms with fewer than 100 workers (N=32). We successfully contacted all but two in each sample.

Although we took two samples, there was no difference in the pattern of response in "large" vs "small" organizations. The total number of WSUI eligible workers represented by the 51 Union officials interviewed was 6,852. Since 10,205 unionized workers had been approved for WSUI, the union officials represent the vast majority of unionized workers covered by WSUI. These 10,205 are approximately 25% of the 40,024 workers approved to participate in WSUI. Since California's union membership in non-agricultural establishments is slightly less than 25%, our sample shows no evidence of being unrepresentative of the California labor force.

A questionnaire containing a total of 116 variables was administered by telephone interviews of the union officer who signed the WSUI application or, in his absence, to an alternate responsible union representative. As indicated above, union officials were most forthcoming in responding to questions.

The development of the questionnaire, its administration and analysis were done in cooperation with a special evaluation unit of the California Employment Development Department which is conducting a thorough analysis of WSUI with special emphasis on worker and employer experiences with and attitudes toward it. Dr. Fred Best, who directs the evaluation, and his staff, unlike many academic researchers who tend to be secretive concerning work in progress, were open and free with advice and assistance. Mr. Robert Rosenberg of the California Senate Office of Research heard of our interest and reached out and invited us to learn first hand the union reactions to WSUI.

Mr. Robert St. Louis, Manager of the UI Research and Reports Section of the Arizona Department of Employment Security very kindly supplied us with an advance copy of union officials responses to an Arizona study. This was particularly helpful because Arizona undertook to survey all of the states 215 union officials concerning their attitude toward a proposed Shared Work Compensation law. The ways in which responses to this survey of all unions coincide with our investigation of a select group of California unionists are reported at appropriate points.

Indiana University of Pennsylvania provided the initial grant for this field study and afforded us the time and resources to undertake it. Research assistant Robert Spear worked hard and well with us on this study and many other colleagues have read and reacted to ideas and proposals.

RESULTS AND DISCUSSION

It will come as no surprise to those familiar with the variety and flexibility of American unions as they actually operate that they bargain over wages, hours and working conditions by doing their own thing in their own way. This is no less true for the approach of individual unions to the WSUI program. Thus, this survey not only provides insight into the specific area of union attitudes toward work sharing when supported by the unemployment compensation system, but also into the workings of bargaining agents in an important area of work conditions as they strive to represent the interests of their members.

The union officials surveyed may not be representative of all unionists. They were self-selected in that only those who had decided to try WSUI were in the potential interview pool. We have no way of learning the attitudes of those union leaders who had not considered the program nor those who may have consciously rejected it. Thus, it is perhaps somewhat less surprising than it otherwise may be to find that there are so many satisfied customers. The overall level of satisfaction revealed by this survey parallels results of surveys by the Economic Development Department of California concerning the California program and the Arizona Department of Economic Security concerning the newly adopted Arizona Shared Work Compensation Plan.

The results of the survey will be reported within major categories. Whenever the Arizona survey produced results on a similar question, these results also are reported for comparison. In addition, anecdotal reports of the union representatives surveyed are used to expand or elaborate upon the results as reported statistically.

Two questions naturally suggest themselves concerning the "representativeness" of the population we surveyed: Are unions which participate atypical? Are these union leaders really representing the workers' views?

Concerning the first question two bits of information are suggestive: The Arizona study questioned all union representatives about a proposed program which they call "shared-work compensation" and received favorable responses by an almost two to one margin. In addition, a review of the unions surveyed shows them to be rather broad, including traditional craft and industrial (former AFL and former CIO) unions, affiliated and independent, private and public sector.

Regarding the second question we note that in the Arizona survey workers

were even more in favor (over 70%) of changing the law than union representatives. In the California survey of workers who had experienced WSUI over 90% had a favorable reaction. Our survey cannot easily be discounted as "unrepresentative" on either count.

Worksharing and Union Policy

It has already been noted that, with respect to practice, work sharing is certainly as "American" as seniority-based layoff. Yet it is also true that the period during which seniority becomes enshrined is the same period during which collective bargaining is recognized as the legitimate and preferred way to conduct labor-management relations. Consequently, it cannot be denied that in the minds of many workers and union leaders, seniority rights and collective bargaining are an identity. Yet, here, as in nearly every other category, the results of surveying union agents in the field points up the diversity of union attitudes toward the question. Just as there are many unionists who assert vigorously that work sharing is an attack on collective bargaining and thereby on unions, there are those who assert with equal or greater vigor that the whole idea of brotherhood and unity requires a willingness to share the misery as well as the prosperity.

First, with respect to the use of work sharing, 47.3% of the officials surveyed responded that they had used short time without unemployment compensation benefits prior to the adoption of WSUI. Further, 72.8% responded that they had experienced reductions-in-force prior to the adoption of WSUI. The history, then, is one of eclectic response to temporary employment problems. While layoff was extremely common as a response, work sharing had also been experienced by nearly half of the unions. Table 1 illustrates the range of union policy on layoff as reported by the bargaining agents.

Table 1

Union Policy on Layoff

Policy	Number	Percent
Never Layoff	2	3.6
Strict Seniority	19	34.5
Seniority & Other Criteria	12	21.8
Mixture of Layoff & Work Sharing	15	27.3
Mostly Work Sharing	4	7.3
No Response--Missing	3	5.5

One obvious observation concerning these results is that the problem of potential layoff must be credible before work sharing can be seriously considered. One elected business agent explained that only when the lack of work became very apparent because the company had laid off virtually all new hires did the regular, "old timers," seriously consider the alternative of work sharing. Among the union representatives surveyed, some visible cutback occurred in volume of work in nearly every case before WSUI was approved by the union. Several business agents speculated that this is probably because of the natural worker suspicion that management may not really have a problem.

More important, however, is the fact that most union contracts, as well as the "common law of the shop" in most plants, distinguish between regular and new or probationary employees. Formal probationary periods may range from 30 days to a year. Prior to that time, most unions have no real way of protecting the new employee and therefore do not yet consider him or her officially part of the "family". Indeed, a common provision in collective bargaining agreements is a clause stipulating that temporary or probationary employees must be laid off before any consideration of reduction in the regular work force. Only after one has been initiated and "paid his dues" in more than the cash sense of the term is one entitled to expect to share and be cared for. One business agent pointed out that his union's agreements had long provided for seniority-based layoff so long as the reduction affected only newcomers. "Nobody knows their name," he explained, "It doesn't trouble anyone's conscience." But as soon as layoff threatens the regular work force, the contract provides for a shortened week to share the available work. As this perceptive representative quickly pointed out, prior to WSUI no benefits could be collected during such short-time schedules.

This last, the fact that unemployment compensation is available to cushion the earnings reduction is crucial to understanding the union response to sharing versus layoff. In the Arizona study union leaders acceptance of shared work is four times greater with an unemployment insurance supplement than without it. In our survey over 83% listed the availability of unemployment insurance as an advantage sought from WSUI.

It is not merely the income effects of the partial unemployment compensation payment which explains union acceptance of WSUI. Interviews make clear that unemployment compensation is perceived as a right, not unlike disability

compensation, which has been bought and fought for. Unionists view unemployment payments as a part of the social wage which has been earned through work performed and attained through union political action. The union leader who is confronted at the bargaining table with employer calculations of labor costs which include both negotiated and legally mandated fringes is understandably suspicious of programs which result in losing such a benefit. Because they see reduced hours rather than full week layoffs as a device to deprive the collective work group of part of its income entitlement, they often practice work sharing through weekly rotation in order to preserve full unemployment payments for full weeks off. They therefore welcome WSUI as a simpler way of attaining their goal of maximizing employment and protecting unemployment benefit entitlements.

The potential threat to seniority through job sharing instead of layoff is not simply ignored by union respondents. Indeed it was most often mentioned among negative results they feared would be associated with WSUI. But this negative was asserted to be moderately or extremely important by only 16.4% of those responding. Equity in the right to work is more complex than simple last-in, first-out suggests. Seniority is only one method of protecting workers' job rights.

Interviews with business agents revealed an amazing ambivalence about the usefulness of seniority in time of layoff. One agent noted that as a union official, he felt bound by the notion that seniority and unionism are an identity, but as a spokesman for his workers he believed that work sharing was better. Besides, he pointed out, whenever necessity dictated in the past, the union had very consciously ignored the contractual provisions and practiced job sharing. As another business agent put it: "This is a unique time. There are no other jobs to go to. It's more important to give consideration to being a human being than to contractual technicalities."

Moreover, as several business agents were quick to point out, they have rarely seen a "pure seniority" contract provision with respect to layoff. The classic clause provides for some interaction between seniority and ability, leading to constant tension within the union and potential fair representation problems in handling grievances. One agent, experienced with mass layoff, spoke with emotion about the problems of union officials with provisions for "last hired, first fired and all that crap." Grievances in such situations, he

maintained, were never resolved to everyone's satisfaction and the problems of conflicting interests are nearly impossible to resolve. As one example, he cited the worker making $10 per hour who has the right to bump down to a $6 per hour job when layoff occurs. He prefers unemployment compensation to $6 per hour and wants the union to negotiate the right to be laid off for the most senior worker. Another worker has the right to bump to a less attractive shift and at first waives his right. But the unemployment period lasts longer than anticipated and he regrets his decision after it is too late. He becomes angry with the union for not giving him sufficient protection. As one last example, the agent with the massive layoff experience spoke to the problem of both employer and workers in the instance of employees with dual skills: when is retaining two persons half-time preferable to retaining one skilled worker full time? "Once it is not assumed that if you don't follow seniority you sin," he explained, "the advantages of sharing in at least some situations stand out."

Another business agent discussed his experience with a layoff of 500 workers, triggering 100 grievances. With the best of intentions, management made layoff/bumping decisions factoring in ability based on prior experience in the work to which the employee wished to bump. The realities of shop life simply don't make such decisions as clear and simple as the date of hire. "The company doesn't care if Joe or Sam does it, as long as he's qualified and capable," the business agent explained. "They don't want to spend time and money on grievances and arbitrations. Joe and Sam each care -- each want the work -- and the union is worried and torn."

The seniority issue is not ignored when WSUI is contemplated. One business agent described with great forcefulness his belief that the contract created seniority as a property right and that it couldn't be revoked by a simple majority vote. For that reason, his local participated in WSUI only when a 100% agreement arose by consensus (not secret ballot) after full discussion. In his experience, workers almost always decide voluntarily to share work when confronted with the reality of reduction. A public employee representative agreed with equal vigor that a simple majority decision to implement WSUI invaded contractual property rights to full time employment. His union won a court case against an employer which had unilaterally reduced hours without unemployment insurance or the union's approval. Thus, his union supports the program only when there is a bi-lateral decision to implement it and union protection against its being

imposed on any worker. He explained that "when faced with the realities and given a choice, workers will be supportive of WSUI in most cases."

The amazing vitality and creativity of union representatives was illustrated by another business agent in his explication of a successful strategy to balance the conflicting interests. His company badly needed to implement WSUI and a few senior workers stood opposed. The business agent negotiated a plan with flexibility and voluntarism and used his leverage with the employer to get a side-bar agreement that a few older workers would be kept busy through some utilization of their skills in other work on at least some of their scheduled days off. When acceptance was voluntary for each work group, he explained, ratification was overwhelming, with support coming even from dissidents: "They don't want to put some fellow worker on the bread and water line."

How, then, is the apparent lack of concern among California union representatives with a threat to the seniority system from work sharing to be explained? It is not that they are cavalier about giving it up; it is an extremely important consideration. In the first place, as one business agent pointed out, it is not given up: "The contract on seniority is unchanged." Seniority continues to be applied with respect to length of vacation or preference in vacation scheduling, in pension entitlement, in all those instances where length of service adds benefits to all without reducing rights for any. Even in some aspects of competitive seniority, such as in promotion, it continues to be applied. Perhaps more importantly, at least from the psychological standpoint, the seniority provisions of a contract continue to be available as a club in the closet. The main value of seniority in the view of the many agents interviewed was that it is an alternative to arbitrary, capricious or discriminatory personnel decisions by management. Seniority takes the club from the foreman's hands and puts it in the union's hands, but that doesn't mean they always need to use it. "Seniority is not threatened," this same agent explained, "because we are not threatening it."

The value of the club in the closet is especially well illustrated by the responses to a question asking business agents experienced with WSUI if they would include it in future contracts. While only 12.7% responded negatively, only 16.4% reported that they would do so automatically. The response of 41.8% of the union representatives was that they would include provisions for WSUI but only on a case-by-case basis. Implementation of the program would be decided

each time a need arose while the contractual language, presumably, could continue to deal with seniority in traditional and acceptable ways. The union leaders were reluctant to give blank checks, even those who spoke most favorably about the program. One representative urged the vital importance, from his viewpoint, of limiting the ability to use WSUI to a specific duration so that layoff by seniority could be faced if it appeared the employer was abusing the program at the expense of senior workers. An international union representative reported that his union had a formal retrenchment policy permitting a four day week, but only for a maximum of two months after which a joint re-evaluation was required. Another representative feared that WSUI could not be written into a contract because of the uncertainty of the law's continuance.

This unwillingness to give management a blank check on WSUI is related to a broader need for certainty as to how much one is sacrificing and for how long. This willingness to accept WSUI because it is for a limited and specific duration is clearly different than a willingness to share the poverty without limits on the depth or length of the reduction in income. This is confirmed in the Arizona study which reports that a shared work system of thirteen weeks is preferred to twenty-six weeks and both of these are preferred to thirty-nine or fifty-two weeks. Similarly, Arizona union leaders were much more supportive of an 8 hour reduction (40.2%) than of 16 (12.6%) or 24 (7.0%). However, fewer favored a 4-hour reduction (35.6%), than a full day's reduction. The work related savings in transportation, clothing, lunch, child care and other costs are not realized in a half-day off.

The primary issue raised by AFL-CIO spokespersons in California and nationally regarding WSUI type legislation concerns the right of each collective bargaining agent to make its own decision. The club in the closet is a fairly universal form of security.

One final observation must be made with respect to the seniority issue. The researchers had anticipated very different reactions from different groups of workers to WSUI. Consequently, union representatives were asked questions concerning attitudes before and after implementation of WSUI from such groups of workers as older, younger, newer, senior, male, female, minority, stewards, local officers, higher officers, etc. The only category to evidence any opposition, according to the reports of the business agents, was senior workers. Even in that category, however, only 23% of the union representatives reported

that senior workers were opposed to WSUI before implementation. Following a WSUI experience, all categories of workers showed increases in support for the program, according to the business agents, and the greatest attitude shift came from among senior workers. Only 11% of the union representatives reported that senior workers were proposed following implementation.

Implementation Mechanisms

The surveys undertaken have convinced the researchers that one of the major reasons for the generally positive response of union leaders to this program is that the members were asked and not ordered to participate. Indeed, the two most negative reactions arose in cases where the employer took, or attempted to take, unilateral action. In one instance the employer instituted an hours reduction without WSUI. The union subsequently won back pay. In the other, the employer attempted to extend the length of WSUI without seeking union approval. In both instances, the union representatives reported that had the union been consulted, the workers probably would have concurred.

It goes without saying, yet is too frequently unrecognized, that different circumstances have much to do with the great variety of responses unions make to employment problems. For example, one business agent reacted to the surprise of an interviewer to the response that the union favored WSUI solidly with no splits by age, race, seniority, or other factors by explaining that a very bad strike two and one-half years previously had totally solidified the workers. Another interview provided further insight into the psychology and politics of the WSUI issue with workers. In this case, the business agent reported two different experiences with two units within the same plant. The union was the same, the personnel manager was the same, the business agent was the same. Group "A," which voted overwhelmingly to accept the program, is almost entirely male. They decided to try the program for two months rather than have ten of the most recently hired maintenance mechanics laid off. The company had traditionally been able to provide year-round work and much overtime. Even with a four day week for awhile, the workers would most likely not fall below a 1400 hour minimum, the critical level for entitlement to full fringe benefits. The meeting which resulted in approval took place on company time and premises during the day shift.

Group "B" in contrast was predominantly female. They were production workers and about 200 of them met to consider the plan between the first and second

shift while the first shift workers were in a hurry to leave for home. The work involved was canning vegetables, an inherently seasonal operation. More importantly, the seasonal nature of the production had given rise to a three tier system of defining workers and their benefits. Some workers were employed one season and considered purely casual, earning only hourly wages while working. Others had attained the status of "regular seasonal" employees by virtue of working three consecutive seasons and they were entitled to some fringe benefits. The third group, highest in status, had escaped casual or regular seasonal classifications and were entitled to full fringe benefits and to job security. In the rejection vote, WSUI was defeated on a clear split of higher versus lower status, according to the business agent, with the higher status workers rejecting anything symbolic of loss of status.

Time and again, business agents reported that a strategy must be developed with great sensitivity to psychological and political realities in order to secure worker approval. One union representative, for example, reported that he was always careful to select the natural leaders or most likely objectors and to meet with them first to explain the WSUI concept. He wrote a letter to every member giving them a specific time within which to express opposition, then implemented the program. Another union representative explained that anytime a modification of the contract with respect to seniority was considered, he called a special meeting of that portion of the local most likely to be affected by work sharing and nearly always secured a unanimous vote. One business agent reported the tactic of presenting information at a joint meeting on company premises, after which the company representatives were excused so that the vote could take place privately.

Such advance consultation and mutual veto is, in the view of the business agents, critically important and assumes a significant degree of trust between the union and management. One representative noted that if the workers believe they are being treated unfairly by the employer "workers will cut off their noses to spite their own faces." "Suppose you are a senior forklift driver working four days and a less senior forklift driver in another department where work is still available for five days gets in a fifth day, which nets him perhaps $8 or $10 more. Would you really want to work a day for a dollar an hour? No, not unless something else is bugging you." From the perspective of this representative, WSUI is a barometer of labor relations; the program only works

where relationships are good and it improves them when it works. Another business agent expressed two conditions an employer must meet before he would consider recommending WSUI to the workers. First, labor-management relations must be sufficiently good that the workers believe the employer "won't try to screw anybody." Secondly, there must be an efficient office force "to see to it that the program is implemented without foulups."

Labor-Management Relations

While some union representatives view good labor-management relations as an essential precondition to the adoption of WSUI, others tended to view improved relations more as a by-product. One representative of a union with a militant tradition described relations prior to WSUI as "terrible." There had been a bitter strike, with "guns, arrests, and law suits." The union had taken a case against the company all the way to the Supreme Court. But, after the company agreed to the union's proposal to use WSUI as an alternative to layoff, the relationship changed. "The workers are no longer bitter; it shows the company appreciates the workers more." The employer had reported that "there were fewer mistakes and rejects during the shorter work weeks. The company appreciates the workers more, they do better work, and the boss sees them as better people." A representative of a large international union agreed, saying that the company "got good marks from workers just because this program showed they cared." Table 2 reports the view of business agents toward the effect of WSUI on relationships between workers and management:

Table 2

WSUI Effect on Worker/Management Relationship

Effect	Number	Percent
Very Negative	1	1.8
Moderately Negative	3	5.5
No Effect	4	7.3
Moderately Positive	14	25.5
Very Positive	29	52.7
No Response/Don't Know	4	7.2

One the one hand, a cooperative relationship between workers and the employer should be expected in these results, otherwise the parties would probably never have considered WSUI. But these reported improvements in relationships

as the result of a single program are dramatic. A business agent reported that the program fostered a deep awareness among workers of the business of the company. Once the company stops fighting the union's existence, the union becomes protective of the company's economic interests. If the workers are then persuaded that employer survival requires flexible work hours, they are willing to agree.

This perceived change in worker attitude toward the employer is even more revealing when compared with the business agents' perceptions about the effect of WSUI on union-management cooperation, as reported in Table 3:

Table 3

WSUI Effect on Union/Management Cooperation

Effect	Number	Percent
Decreased Greatly	1	1.8
Decreased Moderately	2	3.6
Unchanged	22	40.0
Increased Moderately	10	18.2
Increased Greatly	14	25.5
No Response/Don't Know	6	11.0

As shown by the above responses, WSUI is not a brave new world panacea through which union and management end their adversarial relationship. It is not intended to be; it is rather simply an extension of the process of collective bargaining. While there is clearly a significant improvement in union/management cooperation according to the perceptions of about 44% of the business agents, nearly the same proportion, 40%, reported no change at all. Some of these had already reported the relationship as extremely cooperative -- thus leaving little room for improvement. Unions and managements learn how to work together better, under WSUI, or to continue a relatively good working relationship. The really positive and dramatic change, according to the views reported by the union representatives, is in workers attitudes toward the employer and, according to their interview comments, vice versa.

There is some evidence, too, that once workers come to accept WSUI, they will judge the employer's attitude toward them by the employer's use of the program. One business agent described a very positive experience with WSUI in one plant and its elimination brought a deterioration in labor-management

relationships and in worker loyalty to the company. When the plant was sold to an out-of-state company the new owners concluded that they did not want to participate because, based on their home state's laws, they mistakenly feared it would increase their unemployment insurance tax. As a result, management laid off one shift one week and the other the next week, permitting the laid off workers to collect full unemployment benefits and saving nothing in their tax rate. Here it is clear that it is not the money which is key -- the total amount of wages, benefits and taxes is approximately the same. It is the unilateral decision-making which is affecting union-employer relationships. One business agent reported that the union and management got along quite well under WSUI, but both were angry at the Economic Development Department about what they believed were unfair rulings on a number of issues. These problems arose because the WSUI program was administered under rules relating to regular unemployment insurance. These issues were presented to the Employment Development Department by the union and company together. Where administrative corrections were possible, they were made. Where the law requires modification, that is being addressed in new legislation.

Thus, those whose information about labor-management relations is gleaned from newspaper headlines or an evening news report may be surprised to find that the union leader derives no particular pleasure in attacking management or undermining the enterprise. Union leaders interviewed generally characterized their relationship with management as harmonious. They were usually willing, if not eager, to share a concern for the economic vigor of the employer with whom they dealt. Given the right conditions for fostering cooperation, and WSUI appears to be one, California labor leaders frequently play an informed, creative role in helping to solve the managerial problem of slack employment.

Expectations and Fears

Business agents responding to the survey were asked what advantages they hoped to gain for their unions from an agreement to implement WSUI. Table 4 reports their responses.

Table 4

Advantages Hoped For From WSUI

Percent Responding Moderately or Extremely Important
(Non-Cumulative)

Advantage Sought	Number	Percent
Job Security/Steady Income	48	87.2
Maintain Union Membership	46	83.7
UI Benefit Payments for Short Weeks	46	83.7
Maintain Fringe Benefits	44	80.0
System Fairer Than Layoff	40	72.7
Additional Leisure Time	30	36.3

Putting these hoped-for advantages in better perspective, Table 5 below reports the disadvantages which business agents feared would result from WSUI.

Table 5

Disadvantages Feared as a Result of WSUI

Percent Responding Moderately or Extremely Important
(Non-Cumulative)

Feared Result	Number	Percent
Threat to Seniority System	9	16.4
Speedup of Work	3	5.5
Reduced Income	3	5.5
Selective Use of Work Sharing and Unemployment Insurance	3	5.5
Workers Dislike Unemployment Insurance System	2	3.6
Difficulty in Claiming Benefits	1	1.8
Disguises Unemployment	1	1.8

The issue of job security is clearly related directly to the seniority question and has already been treated at length in that context. In the first place, few business agents perceived a serious threat to the seniority system. Secondly, seniority based layoff has been shown to be, at best, a mixed blessing and in any case not nearly so exclusive a system as commonly thought. True, income under WSUI may remain steady but it is reduced. The business agents surveyed, however, reported that their members were remarkably sophisticated

in calculating marginal costs and savings. More than one union leader points out that the cost of gasoline alone would soon make it just as profitable to stay home a day, in addition to, among other savings, laundry and wear and tear on work clothing, lunch costs, child care and tax benefits.

Business agents surveyed reported that less time was lost with WSUI than would have been the case with traditional layoff. Only 7.2% of the respondents said that more time had been lost under WSUI than previously. In contrast, 9.1% responded that about the same amount of time had been lost on layoffs while 54.5% reported less time lost. Curiously, 29.2% had no response or no opinion.

One union representative observed that the acceptance of WSUI by workers and their employers produced a sort of social contract as well as a contract with the Employment Development Department. In his view, employers occasionally scheduled even more work than production needs would dictate in order to avoid threatening contracts by reducing from 4 days to 3 or reverting to the old layoff system. On the other hand, a few representatives did challenge the notion that total work time would not decrease. One of these argued that, in his view, the law had made short time legitimate with the result that employers were less hesitant to reduce work during down turns than they had previously been. Another, a public employee agent, said his members were irritated that the law had made the idea of layoff legitimate. From the viewpoint of his constituents, as public employees and as professionals, they never expected to face the choice of layoff or sharing, and layoff would never have occurred if the idea of reductions hadn't been made more acceptable.

With respect to the fear that employers might employ a speedup in order to maintain production, 87.3% of the respondents reported that no speedup had occurred and only 3.6% reported cases of employers abusing the system in that way. These really must be evaluated, however, in light of the fact that no self-respecting union official would permit a speedup to occur.

Business agents reported success and satisfaction with the system's ability to assist in maintaining union membership and strength. For one, this was the key advantage to WSUI since, in his view, "a reduction in numbers means a reduction in strength." Union leaders, of course, are also concerned about the political problem of membership support. Turnover in membership creates problems of loyalty, unity, and officer support. One representative who had recently been defeated for reelection to office said that if all voters in the local were

as supportive as the workers in the shops using WSUI at his suggestion, he would have won. The program had created for him a constituency. Another representative pointed out that the program offered unions a chance to tell their members "what they've done for them lately." Just negotiating and enforcing the collective bargaining agreement during good times but appearing impotent and unhelpful at the moments of crisis in workers lives was not good unionism. From his point of view, the program allowed business agents to demonstrate their expertise and initiative to the membership and was therefore very useful politically. He felt it also contributed to the larger union responsibility for organizing the unorganized because junior workers who get laid off from union shops may be disaffected with the union and hard to recruit in their new employment.

One sophisticated official felt that any program which improves relations between workers and the employer, with the union getting credit, has to positively benefit the union. He reported that even if workers couldn't get compensation benefits for short time because too little time had passed since the last slowdown, they might practice work sharing anyway because they appreciated the value of the medical insurance and the relationships it fosters. The result, he said, was that workers like each other and like the boss. "When workers hate the boss and their jobs," he added, "they also hate the union." One business agent expressed his relief that there would be fewer unemployed workers hanging around the union hall "bitching about being out of work" when he couldn't do anything for them anyway.

In addition to protecting job security and steady income and maintaining union membership and strength, the third on the list of important anticipated advantages of WSUI was maintaining fringe benefits. In overall terms, the degree of satisfaction in meeting that objective is impressively high. Of the business agents interviewed, 74.5% reported that fringe benefits were not reduced at all during WSUI and only 9.1% reported that some were, with 16.3% responding that they didn't know. Still, the fringe benefit problem is quite complex and varies from employer to employer with a myriad of different contract provisions.

In some cases, for example, maintaining a fringe benefit such as health care is not a significant problem under the union administered program. One business agent explained that under his union's plan, if a worker were laid off

for at least two full months, he could maintain full family coverage at cost to him of $34 per month for a full year with the union fund assuming the difference of as much as two hundred dollars per month. In many cases, the method for calculating eligibility adequately protects at least some short-time work. For example, a building trades representative described his union's "banking" system in which each worker earned one unit of credit if he worked at least 120 hours per month. For every hour over 120, moreover, he could bank up to 360 hours to be used to make up the difference for months under 120 hours. Thus, under a full layoff, the worker would lose benefits in about three months. But under WSUI, assuming he were off not more than two days per week, benefits would extend for over 20 weeks. No union representative reported a cut in medical benefits under any WSUI implementation. To one representative this was an invaluable result. Most of his members were Chicanos with very large families, and they could not possibly have afforded to pick up health insurance coverage.

The experience with vacations was less favorable. Business agents did report instances of vacation credits being lost due to work sharing since many contracts provide for vacation either as a percentage of annual earnings or as credits per days or weeks worked. The extent of the impact of this loss depends entirely upon the actual use of short time. A public employee union representative reported that under his contract, fringes were calculated pro rata for pensions, vacations and sick leave so that work sharing did create some loss. But the loss was less than that which would have affected those subject to full layoff. Certainly the possibility of some loss in this area creates the framework for additional bargaining and unions can respond to their membership's wishes in that way. One union representative explained that they were able to get a written agreement from the employer to credit a day off under WSUI the same as a work day for the calculation of all benefits.

It is the case that the impact of WSUI on pensions is a problem. Primarily, the problem exists when pensions are based upon income in the final years of service and is somewhat alleviated when the calculation is based on highest years. Still, business agents did not report the effect of WSUI to be a major problem. 12.7% reported that there was a negative effect on senior workers' pensions under WSUI but 67.3% reported that there was no negative effect, with 20% responding that they did not know. While collective bargaining provides a means to approach whatever problem for pension calculations is created by WSUI

a small but separate problem exists with Social Security benefits which could be negatively impacted for some senior workers when WSUI is implemented. It is certainly the case that the problem for younger workers' pension or social security benefits is even greater under general layoff. Some unions in the survey responded in ways which would benefit all of their members regardless of age. As one example, one construction industry contract credited a full year's pension for anything over 1200 hours of work per year. The business agent pointed out that WSUI as used hadn't resulted in any cuts in pension credit earned, while a layoff, under his contract, could result in the loss of pension credit for the whole year.

The final most popular advantage hoped for under WSUI, according to the union representatives, was additional leisure time. One representative reported that leisure time was not an anticipated advantage at all when WSUI was initially considered, but the workers now considered it of major importance. Another business agent pointed to the creativity with which the union and employer could use time scheduling in a WSUI implementation to permit extra long weekends by scheduling three days in one week and five in the next. For his members, four day fishing trips became, for the first time, available without using up regular vacation days.

But another union representative was most articulate in describing what he believed were the real leisure time benefits. For the first time, he explained, a father would go to school to pick up the kids on Friday and see what that part of their life was like. Husbands could spend more time at home doing repairs and could take more time to shop and thereby be more intelligent consumers. Since many of his members worked two jobs, this business agent believed it was a real benefit that, for the first time, the father might be home and be seen as a real person by his children. Moreover, many of the men, in his experience, used to spend their weekends, their only time off, drinking with friends and relatives. On days off due to short time, this doesn't happen, if only because neighbors or relatives aren't off on the same day. His members, he believed, were more relaxed workers who made fewer mistakes. In short, the impact on the psychological state of the worker and on his family was very positive.

One business agent perceived a leisure-related benefit which also impacted the health and welfare fund. Workers were covered for dental benefits but seldom took advantage of the preventative care available because their weekends off were also the dentists' time off. They waited till problems became so painful they were forced to miss a work day. This cost the fund money, the worker

lost wages and the employer lost production. Scheduled days off resulted in better dental habits, long range savings on major dental bills and less absenteeism on scheduled work days.

Finally, it is worth observing that one of the anticipated advantages of WSUI was not the protection of recent, affirmative action-inspired hiring of minorities and women. Clearly, there is a substantial affirmative action advantage to WSUI over general layoff by seniority. The reason for this issue being so small a part of the conscious decision to share work is found in the nature of the workplace. According to the business agents surveyed, neither in individual firms nor within the smaller work units within plants is the work force stratified randomly with regard to sex or minority status. Instead, there are employers who do or do not hire workers of protected classes. Particularly in the initial hiring assignments and consequently in the eventual location of workers within a plant, assignments are not made at random but to male and female jobs, black and white jobs, etc. This is a problem with respect to equal employment opportunity, but not one especially influenced by work sharing because the sharing is within relatively homogenous work groups.

When layoff by seniority occurs within a work category, there is no clear issue of junior workers in that category being or being perceived as "different." Usually, if there are significant numbers of protected class workers in the group to be laid off, there are also significant numbers of the same groups who will remain. Even where there are statistically significant differences between those laid off and those retained with respect to sex or minority status, the presence of minority and women workers in the work group who are not affected mitigates against any perception that the layoff has a discriminatory impact. For those workers in protected groups who remain, seniority represents a protection. Or, as one business agent put it pithily, "Hey, man, we all minority here."

This is not to say that WSUI may not have significant affirmative action benefits. The benefits are simply not exactly the same as some, including EEOC officials, anticipated. Union representatives pointed out, for example, that layoff does have a particular impact on lower paid minority workers which is ameliorated by WSUI. A Chicano business agent explained that minority workers frequently don't apply for conventional unemployment compensation. Their earnings may be so marginal that they cannot conceive of waiting in line for the government

check or, because they have had so little experience with industrial employment, they hesitate to apply. Others may simply fear involvement with the government, not because they are undocumented but because they don't speak English and fear the process of filling out forms or have an exaggerated concern over possible penalties for making a mistake. This union representative took the time to learn the WSUI system and translate instructions into Spanish for his members.

Further, one business agent explained that low paid minority workers when laid off frequently seek immediate income at any level. Sometimes they leave the community or neighborhood in search of work. In many contracts a three day period is stipulated within which a laid off worker must return to the job when recalled, or lose it. Those who leave their homes, temporarily searching for other work, or who don't have telephone service, often don't get the recall message until too late and short term layoff becomes a permanent termination. Another union representative maintained that the only real opposition to WSUI came not from old, young, black, white, male or female workers, as groups, but rather from sole breadwinners, for whom four days work was better than none but still, in the lower paying jobs, a problem of subsistence.

Results of WSUI

Even recognizing that all business agents involved in the survey had already made a commitment to try the program and could thus be expected to have a favorable predisposition, the degree of support for WSUI after an experience with it was amazingly high. Only one business agent reported, for example, an abusive use by the employer. He believed that the employer instigated a reduction in order to affect other, unrelated contract negotiations. But even then the representative was not disillusioned with the idea of work sharing with unemployment insurance.

Table 6 reports the responses of the business agents surveyed concerning their local's attitudes toward WSUI after experience with the program:

Table 6

Local's Attitude Toward WSUI

Attitude	Number	Percent
Extreme Dissatisfaction	3	5.5
Neutral	2	3.6
Slight Satisfaction	2	3.6
Satisfied	4	7.3
High Satisfaction	17	30.9
Extreme Satisfaction	22	40.0
No Response	5	9.1

Without question, the response of the business agents surveyed is impressively favorable to what, according to the conventional wisdom, should be a highly suspect program. Far from being an anti-union employer tactic, WSUI was perceived as having very substantial union benefits. One business agent spoke enthusiastically about the potential for creative service which the union derives from the program. He said WSUI forced his union into being much more socially conscious, into social unionism as much as business unionism. As he put it: "There is only so much you can win at the bargaining table and the union has to help its workers also through consumer education, preventive health care advocacy, and making them aware of social services."

The ultimate test of WSUI from the point of view of the workers, then, is whether they are satisfied with the program when they must face the choice of sharing versus layoff. One business agent was especially creative in determining whether or not to recommend it to his local. He had a unionized office staff and tested the program by getting six of the office workers to volunteer to participate in a work sharing reduction under WSUI. It worked, they like it and he proposed the program. Since they play such a critical role in leading opinion, the views of union representatives toward the prospect of recommending WSUI to others in the union is a litmus test of union support. While the idea that work sharing is anti-union is a myth exploded both by the historical record of its voluntary use and even preference by some unions and by the experience described under WSUI, it is certainly a fact that many in organized labor have expressed opposition to the idea. The recommendations of business agents experienced with the program are thus most revealing:

Table 7

Business Agent Recommendation to Others In Union

Would you recommend WSUI?	Number	Percent
Absolutely Not	1	1.8
With Significant Reservations	1	1.8
Not Sure	6	10.9
With Minor Reservations	15	27.3
Absolutely Yes	25	45.5
No Response	7	12.7

Summary and Conclusion

It would be a gross error to conclude from any of the foregoing that even the most enthusiastic union supporters of Work Sharing Unemployment Insurance see it as truth, justice and beauty. They see it as a lesser of evils approach to work place problems which ultimately must be addressed in the broader society. They still see unemployment as a disease and WSUI as better than full layoff but hardly a cure for the underlying condition. Indeed one of the most articulate union advocates of WSUI is at least equally vociferous in his call for full employment and a reduction in the standard 40 hour work week. Work sharing works for unions in some situations and it is only in those situations that they will accept it.

Which leads to a final comment that goes somewhat beyond the scope of the survey. One of the major areas of concern expressed by national AFL-CIO staff is the effect of work sharing on the non-union worker. If the union is the policeman against potential worker abuse under WSUI, who will protect the unorganized worker? Will he or she be subject to speedup, to discriminatory implementation, to unnecessary work time reduction? Will the non-union employer gain an unfair competitive advantage by squeezing five days work out of a four day week?

AFL-CIO has long assumed social responsibility for more than the union worker in its legislative positions on minimum wage, workers compensation, etc.

WSUI is not the cause of, to use just one example, speedup. Nor will its elimination eliminate speedup. There is no legislation which protects unorganized workers against unscrupulous employers.

Indeed, unemployment benefits are not a matter of right in California or other states. Employers can and do deny workers the benefits provided by law by threatening not to recall them when work picks up if they sign up for unemployment compensation. It is as Oliver Wendell Holmes told the cop who, when fired for forming a union, protested that he had a right to free speech: "The petitioner may have a Constitutional right to talk politics, but he has no right to be a policeman." Reduced work weeks are scheduled without WSUI, speedups occur without WSUI and, most particularly when the labor market makes it difficult for the individual employee to shop for another job, exploitation will occur. WSUI is not the cause, its elimination not the cure.

WSUI is seen by most union officials interviewed as a small but significant effort toward answering the question posed in the old labor song, "How can I work when there's no work to do?"

APPENDIX I

The following list represents an array of industrial and craft, public and private sector, AFL-CIO and independent unions, participating in WSUI which have agreed to have their participation in the survey publicized. Where more than one local of the same International was surveyed, the International is listed only once.

Carpenters & Joiners of America, United Brotherhood of
Clothing & Textile Workers of America, Amalgamated
Electrical, Radio & Machine Workers of America, United
Electrical Workers, International Brotherhood of
Engineers, Western Council of
Furniture Workers of America, United
Graphic Arts International Union
Hotel & Restaurant Employees and Bartenders International Union
Laborers International Union of North America
Machinists, International Association of
Molders & Allied Workers Union, International
Office & Professional Employees International
Operating Engineers, International Union of
Painters & Allied Trades, International Brotherhood of
Pottery & Allied Workers, International Brotherhood of
Printing & Graphic Communications Union, International
School Employees Association, California
Service Employees International Union
Sheet Metal Workers, International Association of
Steelworkers of America, United
Teamsters, Chauffeurs, Warehousemen & Helpers of America, Int'l. Brotherhood of
Upholsterers International Union of North America
Wood Workers International Union of America

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Union Leaders, Members Voice Approval Of California Work-Sharing Program

Contrary to conventional belief, union members and their leaders who have worked reduced weeks under a work-sharing plan that includes unemployment compensation payments overwhelmingly prefer it to job layoffs, says a study of California's pioneer Work Sharing Unemployment Insurance (WSUI) program.

The study was conducted by Martin J. Morand, director, and Donald S. McPherson, associate director, of the Pennsylvania Center for the Study of Labor Relations at Indiana University of Pennsylvania. The results of their research were outlined in a paper presented at the first National Conference on Work Sharing Unemployment Insurance held in San Francisco.

The survey covered both large and small companies, that is, those with more than 100 employees and those with fewer than that number. All had already participated in the California work-sharing program. In addition, nearly half, or 47.3 percent, of the union officials surveyed had been involved in work sharing—but without unemployment compensation—before the California program was launched. And almost three-fourths had experienced previous layoffs.

Union approval

According to the study, some 72.8 percent of the union leaders surveyed approved of WSUI. That figure includes 45.5 percent, some 25 officials, who said they would "absolutely" recommend WSUI to other unions and 27.3 percent (15 persons), who would recommend it with "minor reservations."

One labor official, or 1.8 percent of those surveyed, said he would "absolutely not" recommend WSUI; one had "significant reservations"; and six, or 10.9 percent, were "not sure." Seven labor officials, or 12.7 percent, had no response.

Labor union rank-and-file members were even more enthusiastic about work sharing than their leaders. Union officials, say Morand and McPherson, told them 70 percent of their locals were either "highly" or "extremely" satisfied with WSUI. Some 3.6 percent were slightly satisfied, 3.6, neutral; and 5.5, extremely dissatisfied.

These findings, Morand and McPherson say, parallel those of studies conducted by state agencies in Arizona and California. In Arizona, which recently passed work-sharing legislation, more than 70 percent of the union representatives favored a proposal called "shared-work compensation" in a survey prepared by the state Department of Economic Security. The California study, made by that state's Economic Development Department, showed that more than 90 percent of the workers surveyed reacted to the program favorably.

How WSUI works

Employers who need to cut production during business downturns are permitted to reduce the workweek instead of the work force. In companies where unions are involved, employers must obtain their approval. Otherwise, employers might be sued for contract violations.

Each employee whose work hours

are reduced gets a pro rata share of unemployment compensation to help make up the difference between his or her normal salary and the reduced wages. For example, a worker paid $200 for a five-day week is cut back to working four days; he or she receives reduced pay of $160 but is eligible for 20 percent of the state unemployment benefits. In California, where the maximum unemployment compensation is $90 a week, that amounts to $18. Thus, the worker's weekly pay is $178 under California's work-sharing program, compared to the usual wage of $200.

The California legislature adopted WSUI in July 1978 when, following the passage of Proposition 13, the state anticipated laying off public employees. But, because the state channeled surplus funds to local governments, the law has been implemented primarily by private business.

Passed as sunset legislation, California's current work-sharing law is due to expire at the end of this year. A proposal to extend it for several more years has been introduced and, say Morand and McPherson, has received a favorable response. Similar bills to begin a work-sharing program have been formally proposed by the governors of New York and Oregon.

Benefits of work sharing

Besides eliminating the financial crunch of a layoff, says the Morand-McPherson study, there are other benefits of work sharing, California-style. WSUI, report the two researchers, enabled workers to retain many of their fringe benefits, particularly medical coverage. Not one labor leader surveyed reported a cut, they write.

The program did not handle vacations as successfully. Vacation credits, in some cases, were lost. To alleviate the problem, one public employee union's fringe benefits were calculated pro rata for vacations, sick leave, and pensions. In that case, work sharing did create some loss, although, less of a loss than if the employees had been laid off.

The most serious problem with fringe benefits was pensions, especially those based on wages during a worker's final years of service. Still, more than two-thirds, or some 67.3 percent, of those union officials surveyed reported no negative effect, Morand and McPherson say.

Leisure time

Additional leisure time was an unexpected side benefit of the work-sharing experience. Afterward, workers deemed it "vitally important," say the authors. "For the first time," the study quotes one union official, "a father would go to school and pick up the kids on Friday and see what that part of their life was like . . . Husbands could take more time to shop and thereby be more intelligent consumers."

Added leisure time during the workweek also enabled workers to take advantage of preventive health benefits. The result was less absenteeism on scheduled work days, the study says.

Work sharing also helped the union maintain its strength since workers continued to pay their dues. Several officials, in fact, told the researchers that work sharing helped them politically with the membership. It gave them, in effect, an opportunity to "tell their members 'what they've done for them lately.'"

The study adds that work sharing may also help minority workers and their employers in another area since it freed the employees from having to seek work elsewhere. Often, they leave the immediate area in search of work, making them difficult to contact when a layoff ends. If they fail to return to their jobs within three days, as many contracts stipulate, they lose their jobs permanently. By keeping these workers on the job, work sharing, the study says, may have significant affirmative action benefits for employers.

Exploding myths

The general acceptance of work sharing, say Morand and McPherson, is surprising. Why? Because it contradicts the deeply ingrained belief—the authors call it the myth—that work sharing will destroy the seniority system. And that concept, along with collective bargaining, forms much of the American labor movement's philosophical bedrock.

The importance labor attaches to seniority is difficult to underestimate. For it is seniority, in the view of those labor officials interviewed, that protects workers from "arbitrary, capricious, or discriminatory personnel decisions by management."

Though Morand and McPherson say their research explodes the myth that work sharing endangers seniority, organized labor's resistance to it is very real. "The national AFL-CIO has expressed serious reservations, mostly based on fears for the seniority system," they write.

Indeed, several union officials criticized work sharing as legitimatizing layoffs. Thus, more than one union that participated in California's program stipulated the maximum time it would cooperate before requiring a joint reevaluation with management. "This unwillingness to give management a blank check," write Morand and McPherson, "is related to a broader need for certainty as to how much one is sacrificing and for how long."

These unionists view the work-sharing concept, the researchers write, as the "lesser-of-evils approach to workplace problems that ultimately must be addressed in the broader society."

In the unions' view, unemployment is a disease. Thus, while work sharing is better than a full layoff, they say, it will not cure the underlying problem.

One union representative was steadfast in his call for full employment as well as a cut in the 40-hour workweek. That led Morand and McPherson to conclude that "work sharing works for unions in some situations, and it is only in those situations that they will accept it."

WWR

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IN WWR

9 **PARTICIPATION TEAMS "WORK" AT J&L STEEL**

It wasn't all roses in the beginning, but now, after one year, J&L's pilot program in labor-management cooperation is receiving rave reviews.

9 **WORK SHARING SAVES JOBS AT McCREARY TIRE**

A rotational furlough plan preserved jobs, incomes, and productivity at this Pennsylvania tire and rubber plant.

Work Sharing: A Rotational Furlough Plan Saves Jobs at McCreary Tire

by Linda Roberts

In the spring of 1980, a combination of decreased sales and increased inventory costs forced the McCreary Tire and Rubber Company of Indiana, Pennsylvania to discontinue production of its passenger tire line, representing 40 percent of the company's total volume. But, despite this reduction in volume, the massive layoffs which traditionally accompany such cutbacks did not occur. Instead, the company and the union adopted an innovative work-sharing alternative: a rotational furlough plan which protected the workers' earnings and benefits while preserving the firm's productivity and financial viability.

Like other work-sharing schemes, the rotational furlough plan focused on keeping everyone employed, even if less than full time, rather than laying off some—usually less senior—workers, while others continued to work full time. While this kind of scheduling could be done by the day (for example, putting everyone on three days work and two days off) or even by the hour, it would result in the loss of unemployment benefits for everyone, due to the inflexibility of the unemployment compensation system in Pennsylvania—and, indeed, in most other states.

According to Donald Mateer, vice-president and general manager of manufacturing for McCreary, "Reduced work-weeks may be a viable solution in the right circumstances, but in times of double-digit inflation it is unthinkable to expect people to come in, get three days' pay, and then try to sustain themselves and their families."

Therefore, the company and union agreed to institute a weekly rotational schedule which, in effect, reduced the work force by one-third in any one week. Thus the laid-off employees would be eligible for unemployment insurance and would continue to receive fringe benefits from the company.

How the plan works

McCreary, as is typical for most companies in the tire business, normally maintains a 24-hour schedule by operating three rotating shifts—a feature which makes it particularly adaptable to a furlough plan. This plan requires the layoff of one-third of the workers each week on a rotating basis.

The joint union-management decision was to eliminate the least popular of the three shifts—the "hoot owl" shift, from 11:00 P.M. to 7:00 A.M. The workers on this shift, however, were kept together as a group, as were the workers on the day and evening shifts. Interviews with workers and supervisors at McCreary's confirmed that changing members of a work team would have had adverse effects on the productivity of the entire team, so the three separate groups were rotated as units.

During the 120 days that the furlough plan was in effect, each group worked two out of three weeks. During the third week, the group was "laid off" and collected unemployment benefits. Thus, for every three-week period, each worker received two full weeks of pay and one full week of unemployment benefits. He also continued to be eligible for all fringe benefits during the entire period. The plan affected all manufacturing employees—whether production or maintenance, union members or supervisors, and engineers or other persons in management.

Employees did not experience financial hardships despite the fact that they worked nine weeks less—14.4 percent fewer hours—in 1980 than in 1979. Because of vacation benefits, wage increases, and cost-of-living adjustments previously scheduled for 1980 in the contract with the United Rubber Workers, the 1980 W-2 statement for the typical McCreary employee was within 1 percent of his or her 1979 earnings. When unemployment compensation benefits were add-

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ed, the employees' actual net dollar income was significantly greater than in the previous year.

Employees also continued to receive full fringe benefits, including health insurance—particularly important to laid-off workers since statistics show a strong correlation between unemployment and the high incidence of physical and mental illness.

Problems with layoffs

Job preservation, together with income maintenance and benefit protection, is obviously important to the worker. But what did the company gain from the plan? Why was the company willing to keep hundreds of workers on its payroll, clearly increasing the total cost of fringe benefits, when past practice, industrial convention, and the collective bargaining agreement suggested a simple and straightforward layoff?

There were several reasons, among them the seniority-connected practice of bumping, a complex process in which senior employees may "bump" to any jobs held by less senior workers. Bumping has several negative consequences from management's point of view. As workers bump down, even though they may have the ability to do the newly assigned job, it is unlikely that they are immediately as fully skilled and productive as the persons they replace. Often other workers with whom the senior employee is assigned may have their production adversely affected.

Bumping works the other way as well. As production picks up and laid-off workers are recalled, transferred workers start moving back to their original positions. Just as the company is obtaining new orders which must be filled promptly, its response is slowed down by the bumping, recall, and reorganization processes.

The rebuilding of production after layoff presented other problems which McCreary wanted to avoid. Management knew it would have to rebuild sales and production volume in several months because the business was simply not viable at 60 percent capacity. If hundreds of junior workers were laid off for months, some unknown number would not return when called. While McCreary has no exact calculation of the total cost of replacing one trained worker, it estimates that the total cost of recruiting, selecting, and training each new employee amounts to several thousands of dollars worth of money, manpower, materials, time, lost production, and delayed deliveries. Management judged that it simply could not afford to waste hundreds of thousands of dollars in human capital during this critical phase of the company's existence.

Vice-President Mateer added another hard-to-measure but extremely important consideration: "Layoffs usually result in making the employee doubt his worth to the company even if he is called back to work. He will not have the same attitude toward his job as before he was laid off. It may seem easy to lay a person off, but that doesn't always make it the best move for the company, the union, or the individual." In addition, he pointed out, constantly applying the "last hired, first fired" rule could result in too large a proportion of older workers in the work force.

Company gains

Some of the benefits which accrued to management were measurable, such as increased productivity. For the months of April through August, the period of the rotational furlough plan in 1980, production on a pounds-per-worker-hour basis was actually slightly higher than for the same months of 1979.

Other benefits included: a drop in the absenteeism rate, a dramatic reduction in the number of injuries, and a significant decline in the percentage of scrap waste generated. The fact that many of these gains specific to the furlough period tended to continue beyond that period suggests the true significance of the work-sharing experiment: what really happened was not so much a change in hours scheduled as a change in the entire labor-management relationship.

It was a relationship whose past history was marred by strikes at the conclusion of each contract. In 1980, however, there was no strike, and the contract was ratified by a 5-to-1 margin two weeks ahead of the expiration date. The rotational schedule cannot alone be credited with this change in strike pattern. Rather, it was partly the cause and partly the effect of a general improvement in union-management relations.

An open relationship

Beginning in the late seventies, the company adopted and demonstrated a consistent policy of working with the union in an open and cooperative manner, which included accurate, timely, and forthright exchanges of information. In addition to meeting regularly with the union leadership, management instituted regular open informational meetings with the entire work force during each shift.

This sharing of information with and through the union about the problems and prospects of the company, its market position, new machinery, competition, and costs was more than a one-way propaganda flow. The company also listened to the workers—not merely in terms of traditional contract violation grievances—and accepted their ideas about production procedures and plant processes.

The union was involved very early in discussions of the company's plans to give up the passenger tire business. The entire union committee met with the production management team as they reviewed the pros and cons of the alternatives. "We learned during that period of time that cooperatively we can work out most of our problems, even in a bad market, a poor cash position, and with a horrendous amount of debt. Very few people thought we were going to survive," according to Mateer.

The union accepted the furlough plan with only one dissenting vote. When, toward the end of the 120-day trial period, it appeared that an extension might be necessary, it was unanimously approved by the union.

In an independent study of job satisfaction at McCreary's near the end of the rotational experiment, employees were asked: "To what extent do you feel that your job is important to the company?" Eighty-one percent said, "Very important"; only 2 percent answered, "Not important."

Sharing the work on a rotational basis was not an economic cure-all; some have even said it was merely a Band-aid. Nevertheless, the union and management at McCreary's like to think they have become part of the solution to an economic problem instead of being one of its statistics. WWR

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SCHOOL OF LABOR AND INDUSTRIAL RELATIONS

Shared Work Unemployment Compensation

Federal Legislation

Legislation to encourage states to provide unemployment benefits to partially unemployed workers is pending before the Ways and Means Committee of the U.S. House of Representatives. The "Short-Time Compensation Act of 1981," H.R. 2005, was introduced by Rep. Patricia Schroeder (D-CO) during the first session of the 97th Congress. (See Spring 1980 Newsletter.) Hearings most likely will be held early in 1982.

For more information, contact Linda Ittner of Rep. Schroeder's staff at (202)225-4025.

State Legislation

California

The State of California recently extended its statewide Shared Work Unemployment Compensation (SWUC) experimental program to 1983 (S.B. 130). In order for companies to participate in SWUC, at least 10 percent of their employees must be affected. The reduction must result in at least a 10 percent cutback in hours and wages in the affected work unit or units. If a collective bargaining agreement is in effect, the bargaining agent must agree to the plan in writing. SWUC benefits may be paid to participating employees for up to 20 weeks in a 52-week period.

Employers are charged for benefits in the same way they are charged for regular unemployment insurance benefits. However, participating employers whose recent use of unemployment insurance benefits exceeds their contribution (negative reserve) to the fund are required to pay additional unemployment insurance taxes ranging from 0.5 to 0.3 percent on the first $6,000 of an employee's wage.

Benefits are paid directly by the state by mail or at the worksite after a one-week waiting period. Participating employees are not required to conduct a job search while on SWUC, and employers do not have to document that a reduction in hours is unavoidable. Layoffs during SWUC are not prohibited.

Arizona

The Arizona state legislature adopted shared work unemployment legislation (S.B. 1005) in April 1981, and it became effective January 1, 1982. The statute generally resembles the California bill. However, in Arizona, participating employers must certify that equivalent layoffs would occur if SWUC were not available and must indicate how they will treat fringe benefits for participants. Employees' weekly hours must be reduced by at least 10 percent but not more than 40 percent. SWUC benefits may be paid to participants for a maximum of 26 weeks during any benefit year. The additional UI tax rate for participating employers with negative reserve accounts ranges from 0.25 percent to 3 percent.

Other State Initiatives

Several other states have introduced related legislation since the start of 1981 but have not taken action. These include: New York (S. 5304); Maryland (H. 1621, February); Hawaii (H. 1926, February); Illinois (H. 1286, April); Pennsylvania (H. 2045, October); and Oregon (S. 328 reported favorably by Senate on February 16, 1981).

States seeking information on planning and administering a shared work unemployment compensation program can find assistance at the Office of Research, Legislation, and Program Policies in the Unemployment and Insurance Service Office, Employment and Training Administration, U.S. Department of Labor. The office has revised and commented on shared work unemployment compensation legislative drafts submitted by a number of states. It is the policy of the office to comment on all unemployment insurance-related legislation. Contact Stephen Wandner, Deputy Director, (202)376-6168.

Surveys and Evaluations

"Shared Work Unemployment Compensation: Arizona Survey Results," prepared by Zeena Webber, Joseph T. Sloane, and Robert D. St. Louis, Arizona Department of Economic Security, Unemployment Insurance Administration, August 1981.

This report summarizes the findings of a survey conducted by the Unemployment Insurance Research and Reports Section of the Arizona Department of Economic Security in 1980 to ascertain the views of employers, unions, and workers on a number of shared work unemployment compensation (SWUC) plans. Data from the survey indicate that the majority of those polled—67 percent of union representatives, 81 percent of employees, and 52 percent of employer representatives—favored temporarily changing the unemployment insurance law to allow a state pilot program on SWUC.

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International Labor Office Conducts Study on Work Sharing

The International Labor Office is conducting a two-part study on "short-time working" (work sharing) as an alternative to layoffs in industrialized countries. Part one of the study will contain a theoretical analysis of the pros and cons of work sharing compensation vis-a-vis layoffs as they relate to workers, firms, government and society. Part two is a survey of the characteristics and results of programs in five countries.

For further information contact Juan Mesa, Emergency Employment Schemes Branch, Employment and Development Department, International Labor Office, CH 1211, Geneva 22, Switzerland.

Labor Views

AFL-CIO National Policy Statement

The AFL-CIO gave its conditional support to short-time compensation as an alternative approach to layoff in a statement issued August 5, 1981 in Chicago. "On balance," the statement reads, "short-time compensation with appropriate safeguards is a worthwhile approach."

Conditions enumerated by the AFL-CIO Executive Council for acceptable state work sharing unemployment insurance legislation are:

- Adequate funding for the unemployment insurance trust fund to protect the rights of all who are unemployed;
- Where workers are represented by a union, agreement with the union on short-time compensation;
- Wage replacement level of at least two-thirds of each worker's lost pay for up to 40 percent of the workweek;
- Full retention of pension, insurance, or other fringe benefits; and
- Protection against manipulation of short-time compensation that would discriminate against recently hired workers, especially minorities and women.

Union Leader Response to California's Work Sharing Unemployment Insurance Program. Paper prepared for the First National Conference on Work Sharing Unemployment Insurance, San Francisco, California, May 14-16, 1981, by Martin J. Morand, Director, and Donald S. McPherson, Associate Director, Pennsylvania Center for the Study of Labor Relations, Indiana University of Pennsylvania.

Workers and union representatives who have had an opportunity to experience shared work unemployment compensation (referred to by the authors as work sharing unemployment insurance or WSUI) support it, many enthusiastically, given certain critically important conditions. Many of the union representatives surveyed perceived it as having substantial union benefits. Nearly half of those interviewed said they would "absolutely" recommend WSUI to others in their union and an additional 27.3 percent said they would recommend it with "minor reservations." Three major reasons unions accept the program, as indicated in the report, are the bilateral decision-making process prior to implementation; the specific, limited duration of WSUI; and the availability of unemployment benefits.

Reviewing the historical record as well as the response to the survey, the research team explored why unions have accepted WSUI despite its potential threat to seniority (i.e., while layoffs are seniority-based, WSUI reduced the work time of all workers in the participating units or firm). This potential threat is not ignored by unions, and was most often mentioned among the negative results union officials feared. Still, this negative was viewed as moderately or extremely important by only 16.4 percent of respondents. It was noted that the contract on seniority is unchanged by WSUI and the seniority provisions in the contract continue to be available as an alternative if arbitrary personnel decisions are made by management.

When asked whether they would include WSUI in future contracts, close to 42 percent of union agents said they would include provisions but only on a case-by-case basis. Only 16.4 percent of those interviewed said they would include WSUI automatically in future contracts, while 12.7 percent responded negatively.

The survey showed that senior workers were the only group to evidence any opposition to WSUI prior to implementation, yet even in that category only 23 percent of union representatives reported senior worker opposition. Following participation, all categories of workers showed an increase in support, with the greatest attitude shift coming from senior workers.

Also examined in the report is the effect of WSUI on labor-management relations. About 44 percent of business agents perceived a significant improvement in union-management cooperation after WSUI. The findings suggest that unions and management learn how to work together better under WSUI or else continue a relatively good working relation. According to the survey, the dramatic change was in workers' attitudes toward employers, with nearly four-fifths of respondents indicating a positive WSUI effect on worker-management relations.

Union representatives were asked about the advantages and disadvantages they expected to accrue from the program. In descending order, the disadvantages labor representatives were most concerned about were: threat to the seniority system (16.4 percent); speedup of work (5.5 percent); reduced income (5.5 percent); selective use of work sharing and unemployment insurance (5.5 percent); workers' dislike of unemployment insurance system (3.6 percent); difficulty in claiming benefits (1.8 percent); and disguised unemployment (1.8 percent). Having participated in the program, 87.3 percent of labor representatives reported that no speedup had occurred; only 3.6 percent reported employer abuse. Some agents still expressed concern that California employers would be less reluctant to reduce work during downturns than previously and one public employee agent said the law had made the idea of layoffs legitimate.

Important advantages hoped for from WSUI were: job security and steady income (87.2 percent); maintenance of union membership (83.7 percent); UI benefit payments for short weeks (83.7 percent); maintenance of fringe benefits (80.0 percent); system fairer than layoff (72.7 percent); and additional leisure time (36.3 percent).

Labor representatives believed that WSUI would help maintain union membership and strength; help in recruitment (junior workers who would otherwise be laid off first are hard to recruit); and sustain support for elected officers. According to one agent, the program created a "constituency." Agents reported less time lost with WSUI than with traditional layoff. Further, their degree of satisfaction in maintenance of fringe benefits was high. Close to 75 percent of respondents said that benefits were not reduced at all during WSUI; only 9 percent said they were. However, experiences varied with the different benefits.

Copies of the report may be obtained by writing the authors at 411 John Sutton Hall, Indiana University of Pennsylvania, Indiana, PA 15705 (412)357-2640.

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When given a choice among various hypothetical work sharing programs, union representatives expressed a preference for a SWUC program of 26 weeks or less, continuation of full fringe benefits, and partial compensation through the unemployment insurance system. Responding employers agreed that the program should be 26 weeks or less and that UI benefits be used to partially compensate workers for lost hours resulting from work sharing, but they preferred reducing fringe benefits. Workers preferred the work sharing approach to layoffs regardless of the length of the program and whether fringe benefits were maintained; however, SWUC was most desirable when the program was short (13 weeks) and fringe benefits were continued in full. Concern was expressed by unions and workers that some employers would begin partial layoffs sooner than they would begin full layoff.

For information about the survey and/or the program design, contact Zeena Webber at (602)255-3661.

The Feasibility of Voluntary Shared Work Compensation as an Alternative to Layoffs in New York State's Public Sector. A Report Submitted to the New York State OER/CSEA Committee on the Work Environment and Productivity (Grant #S165631). Prepared by Gary A. Moore, Associate Professor, School of Business, State University of New York, College at Geneseo.

This paper addresses major issues concerning the feasibility of shared work unemployment compensation (SWUC) in New York's public sector, including administrative questions and an assessment of the impact of the program on public sector employees, public sector employers, and government. In California, preliminary data indicate that by late 1980 only nine public employers had filed SWUC plans. Gary Moore states that it is not clear whether this underutilization resulted from the law's inadequacies for government employment or whether SWUC wasn't needed because of unexpected employment stability in the public sector.

To determine whether public sector workers in New York State were interested in SWUC, a short questionnaire was developed and administered during summer 1981 to approximately 1400 state employees at three facilities in western New York, with an overall response rate of about 40 percent. More than 60 percent of respondents supported the concept of SWUC as an alternative to layoffs. Since reduced workweeks were the least preferred type of worktime reduction, Moore attributes the popularity of SWUC to respondents' concerns about job security and the well-being of their co-workers. Among the implications he draws from the survey are that an increased number of work time options would improve job satisfaction among state employees and that a favorable overall climate exists among state workers for work sharing policies to combat unemployment.

The report includes projected costs, based on a simulation and also on preliminary information from California. Average workers can be expected to maintain roughly 95 percent of their regular take home income under SWUC; all workers maintain job attachment, full fringe benefits, and have an additional day off. SWUC would provide more aggregate income than layoffs, with the greatest benefit accruing to junior workers who would otherwise be subject to layoffs.

Total labor costs for public employers under SWUC, as further suggested by the simulation, are not likely to exceed those incurred with layoff and probably would be less under SWUC. California preliminary data show that direct labor costs were reduced by 15.5 percent through layoffs but by 20.8 percent through the use of SWUC. Further, employers may avoid the cost of turnover and lost productivity that accompanies layoffs, while retaining valuable workers.

Although total benefits paid by the state UI system might be greater with SWUC than with layoffs, Moore does not expect the UI system to suffer because of the reimbursable UI chargeback method that applies to public sector employers.

Moore details the issues he feels warrant more attention as they relate to the use of SWUC for New York state employees (the improbability of a 20 percent RIF by a state agency among them), but concludes that SWUC is "one of several weapons" to avoid public sector layoffs.

For copies of the report or more information, contact Ted Chrimes, Assistant Director, Committee on the Work Environment and Productivity, 99 Washington Avenue, Suite 2008, Albany, NY 12210, (518)474-8904.

California SWUC Program Evaluated

The final evaluation report of California's Shared Work Unemployment Compensation Program by the State Employment and Development Department (EDD) is scheduled to be released in Spring 1982.

Resources now available from EDD include:

- *An Interim Evaluation Report*, released April 15, 1981 by the Shared Work Evaluation Unit, EDD;
- *A Review of the Shared Work Unemployment Compensation Program*, released January 1981 and prepared by the California Office of the Legislative Analyst (see Winter-Spring 1981 Newsletter); and
- Proceedings of the "First National Conference on Work Sharing Unemployment Insurance," sponsored by the California Employment Development Department and the California State Senate on May 15, 1981.

For further information about the program and for copies of these resources, contact Werner Schink, Assistant Project Director, Shared Work Evaluation Project, Employment and Development Department, Employment Data and Research Division, 7000 Franklin Boulevard, Sacramento, CA 95823, (916)322-0540.

NCAWP Newsletter

A publication of the National Council for Alternative Work Patterns, Inc.
1925 K Street, NW, Suite 308, Washington, DC 20006
(202)466-4467

Editors Susan W. Post
Gail Rosenberg

Contributing Editor Constance Swank

The next issue of the NCAWP Newsletter will examine the extent to which different alternative work schedules are used in the United States. An updated selected bibliography will be included, as will reviews of a variety of recent books, including *New Work Schedules in Practice* by Stanley D. Nollen; *Flexible Working Hours: An Innovation in the Quality of Working Life* by Simcha Ronen; and *A Shorter Workweek in the 1980's* by William McGaughey, Jr.

Chairman FORD. Thank you very much.

I thank the two of you for appearing before the committee. This will conclude our public hearings today. We are happy that we were able to accommodate everyone and thank the two of you for your fruitful information pertaining to the legislation that you discussed with us.

Hopefully, the committee will within the near future move to a markup session on some of the legislation discussed today. That is not to say we have already scheduled a markup date for the bill you made reference to nor the other bills or either of the proposals by the administration.

I would hope that the full committee will allow us some time to go into a markup session to consider the four or five bills under the unemployment compensation area so the subcommittee will have ample time to examine what would be appropriate and what we could best send to the House floor for final passage.

I hope it will be in the very near future. Thank you again for your testimony today before the committee. If there is no further business, the subcommittee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 4 p.m., the hearing was adjourned.]

[The following material was submitted for the record:]

STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman, I am greatly concerned by the President's FY 83 budget request for employment services. The nationwide network of local employment offices financed by Federal grants provides a valuable service to unemployed workers and employers. As our national unemployment rate continues to hover near 9 per cent it is critical that we maintain a strong commitment to employment assistance.

The President's budget requests just 13,900 employment service staff to address the needs of our unemployed. Recently, the Congress and the President recognized that this level of service was not sufficient to handle the needs of the unemployed during our current fiscal year and adopted a supplemental appropriation to address this need. I find it hard to believe that now, just one month after that action, we are again debating the merits of this important service.

As your subcommittee reviews the President's request I want to highlight the success that employment placement services have had in Iowa. Last year, Job Service of Iowa placed 95,666 in gainful employment through its employment service division. Using statistics provided to me by Colleen Shearer, Director of Iowa Job Service, we can clearly see that the federal assistance given to the employment service division of Iowa Job Service was a cost effective investment by the Federal government.

At an average hourly wage of $4.50, the taxable income of the 95,666 Iowans placed by Job Service of Iowa was $895,433,760. This figure, coupled with the savings to state and Federal social assistance programs from which many of these unemployed workers were drawing, shows a clearly positive cost-benefit ratio for this service.

In the 1930's, when the employment security system was created, the Congress developed two distictive programs: Job Placement and Job Insurance. The Congress recognized that Job Insurance was needed to provide economic stability to the country during economic difficult times. However, the Congress also realized that Job Insurance by itself was not sufficient. We needed a program to provide employment services to our unemployed. The services provided by a job placement program would provide the needed testing, interviewing, counseling and placement that is needed to put people back to work.

Unemployed American workers do not seek social programs or hand-outs. They want meaningful work. During the coming months we must not turn our backs on the need of these workers to find the right employment to utilize their skills. Job Placement services in Iowa meet those needs with a cost effective program supported by Federal assistance. I urge your subcommittee to support a job placement program for this country that provides for the 17,500 job placement personnel that are currently in service. Let us continue to strive toward our goal of removing people from unemployment rolls and placing them on tax rolls.

Thank you for this opportunity, Mr. Chairman, to provide these thoughts and statistics for the consideration of your subcommittee.

STATEMENT OF THE

AMERICAN CEMETERY ASSOCIATION

The American Cemetery Association (ACA) is submitting its comments on H.R. 5911, a bill to amend Title XVI of the Social Security Act to exclude burial property from the determination of a supplemental security income applicant's resources. This legislation to benefit the elderly and other low income people is vitally needed and is strongly endorsed by the association.

The ACA is the nation's oldest and largest trade association representing the memorialization and interment industry, with more than 2,500 members worldwide. Its membership consists primarily of owners and operators of private, endowment care cemeteries. Endowment care cemeteries are those cemeteries that are required by state law or by their own bylaws or other legal documents to set aside in trust a certain percentage of the sales price of a burial space for future care and maintenance of the cemetery.

The association is submitting this statement because it is concerned about the hardship and distress that the present law places on many elderly persons owning cemetery property. Under existing provisions of the law, the fair market value of cemetery property owned by an applicant for supplemental security income (SSI) is included as a countable resource when determining eligibility. Frequently, such applicants are faced with the difficult choice of giving up the cemetery property to qualify for benefits, retaining the property and giving up some other asset, or

not receiving benefits.

For the elderly with very limited income and assets, this is not an easy choice, especially when a deceased spouse or other family member is already buried in one of the spaces owned by the applicant. Frequently, ACA members have had to witness the trauma of an applicant's having to sell the burial space next to a deceased spouse and the outrage that such an individual feels toward an insensitive federal government. It is a cruel and difficult choice to impose on an applicant -- life-saving benefits or being buried next to a loved one -- but one that ACA members find happening to their lot owners in alarming numbers.

Another hardship created by current requirements is the loss of the security of owning burial property. One of the primary motives for purchasing burial space before need is to enable a family to make their plans for burial together, at a time free from emotional distress, and at a time and in a manner that they can afford.

If elderly applicants are forced to sell their burial spaces in order to qualify for SSI benefits, they relinquish the advantages of purchasing cemetery property in advance of need. When the time of need finally does arrive, the family of the deceased SSI recipient must make burial arrangements under considerable emotional distress, pay cash, buy cemetery property at the current higher prices, and, perhaps, be buried at some distance from other family members or in a less desirable location. Thus, the present law creates a needless hardship for both the applicant and, later, the applicant's family.

Including the fair market value of the burial property is unfair, because

it is very unlikely that the property could be sold by the individual for that amount. Burial property is not readily disposed of or converted to cash, like other assets. Many states, in fact, have enacted a variety of provisions that restrict or restrain the re-sale of cemetery property by individuals. For example, some states (e.g., California, Louisiana, and Ohio) grant a vested ownership interest to spouses, so that cemetery property cannot be sold or disposed of without the express consent of both spouses.

Other states have statutes prohibiting speculation in cemetery property. Still other states statutorily exempt cemetery property from attachment, taxation, and liens, partially in recognition of the difficulties in reselling burial spaces. Many states by statute require lot owners to obtain the permission of the cemetery or to comply with applicable cemetery rules and regulations before selling.

In addition to state laws, many cemeteries require that their lot owners first offer to sell the space back to the cemetery, generally at a fixed price or at the price originally paid by the purchaser, before attempting to sell it.

Even assuming that the SSI applicant can overcome some of these impediments, it is unlikely for a variety of reasons that the individual can sell the property at or near fair market value. One reason is that the fair market value will generally be greater than the price that the cemetery can sell the equivalent burial space to a prospective buyer in an undeveloped section. Another reason is that it is difficult to sell single spaces.

Since much of the burial spaces sold on a pre-need basis are in undeveloped

sections of the cemetery, they are sold for significantly less than spaces in developed sections. Thus, by purchasing pre-need a consumer may receive a significant cost-savings. Years later, when the section is developed, the fair market value of the property increases substantially. Thus, as recently occurred at a cemetery in Oakland, California, SSI applicants who purchased burial space for $65 in 1956 found that the Social Security Administration was appraising their property for $400 to $500 in 1981-82. Similarly, at a cemetery in Memphis, Tennessee, two spaces purchased for $60 in 1933 by a couple are now valued at $650 by the Social Security Administration. As recently as 1973, two spaces in this Memphis cemetery had sold for $130, but which now would sell for $650. In Cincinnati, Ohio, a cemetery reported that some of its lot owners who purchased spaces for $45 to $50 apiece years ago are having these spaces appraised at $275 to $300. Yet, in none of these examples did the SSI applicant who had to dispose of their property in order to qualify for benefits receive an amount anywhere near the fair market value. At the Memphis cemetery, for example, the property was repurchased by the gemetery for $100 apiece, while the Cincinnati cemetery repurchased the burial spaces at the price originally paid by the purchaser.

Not only is the current law an unfair burden on SSI applicants, it also places a burden on government. The SSI recipient may have to be buried at government expense, since the individual's estate or family are not likely to have sufficient financial resources at the time of death to pay the entire cost of burial. Where once the individual owned a space in a well-kept section of a cemetery, his or her remains could be relegated to a "potter's field" far from family and friends. Since maintenance of a cemetery constitutes an ongoing, increasing, and perpetual expense, each additional welfare burial constitutes an added

expense for government. This added expense for local government is likely to greatly exceed the estimated cost of H.R. 5911.

While accurate documentation of the scope of this problem is difficult, the ACA estimates that during 1981 the number of individuals faced with this SSI problem numbered in the thousands. One cemetery in Memphis notes more than 100 occurrences in 1981, while a Sacramento, California, cemetery receives 2 or 3 inquiries a week. On the other hand, a cemetery in Baton Rouge, Louisiana, only noted 7 or 8 examples in its records during 1981. Whatever the number of instances that this problem has given rise to, all agree that it is an emotional issue for the individuals affected by this government policy.

A wide variety of techniques are being used by SSI applicants in an attempt to overcome the present inequity in the law. One method is to transfer ownership of the burial space to another member of the family. Another technique is to transfer ownership back to the cemetery in trust while retaining the right of burial, thereby rendering the property inalienable. Other SSI applicants assign a part interest in the burial space to another person so that the second person's approval is necessary in order to sell the property. Finally, some cemeteries are advising the Social Security Administration that one burial space in a two-plot spot has no, or substantially little, market value.

The ACA believes that such efforts, however commendable, should not be necessary. The SSI eligibility requirements should be re-drafted so as not to force applicants to resort to these and other techniques in order to retain the security of owning cemetery property. The ACA strongly supports the passage of H.R. 5911 as a means of correcting this inequity

and to lessen the indignities that the present law places on beneficiaries.

The ACA brings to the subcommittee's attention two areas in the bill that need clarification or amendment. First, the association recommends that "burial plots and niches" be deleted and replaced with the term "burial spaces." The present language is too restrictive and would not include a variety of other arrangements such as mausoleum entombment or lawn crypt burial. Use of the term "burial space" covers all methods of interment, including niches for cremated remains, ground burial, and mausoleum entombment. In addition, the suggested term is sufficiently broad as to permit some regulatory flexibility.

Second, the same resource inclusion that is done for SSI is also done for applicants for Medicaid. The ACA believes that this inequity should also be remedied. Penalizing someone because they own cemetery property, which is not a marketable asset, seems unfair. Therefore, we recommend that the proposed cemetery exclusion contained in H.R. 5911 be expanded to cover applicants for Medicaid benefits.

The American public spoke forcibly in the 1980 presidential election when it elected Ronald Reagan to get the federal government off the backs of the people; H.R. 5911 is an excellent opportunity for Congress to respond to the desires of the American public. On behalf of the thousands of Americans who are victims of this callous law, the American Cemetery Association urges enactment of H.R. 5911.

STATEMENT OF THE ASSOCIATION FOR RETARDED CITIZENS OF CASS COUNTY, N. DAK.

We, the Association for Retarded Citizens of Cass County, Fargo, North Dakota, express our thanks to Chairman Ford and the members of the Subcommittee on Public Assistance and Unemployment Compensation of the U. S. House of Representatives, for this opportunity to present testimony on the proposed regulations on Supplemental Security Income (SSI).

My name is Maura Jones and I am the Associate Director for the Association for Retarded Citizens here, responsible for Programs. I am submitting this testimony on behalf of our membership and the hundreds of people we serve in one way or another.

Although we could, and would like to respond to several of the (what we consider) dangerous proposals from the present administration, we will limit our comments to only one of them.

ENSURE THAT THE DEFINITION OF DISABILITY IS BASED ON A PREPONDERANCE OF MEDICAL RATHER THAN OTHER FACTORS.

That proposal will very neatly cut out the only income that many of our people who are mentally retarded have. It will also strip them of even a modicum of medical and dental services since they must be Supplemental Security Income recipients to be eligible for other services.

Mental Retardation (MR) is a non-visible, non-medical handicap. This condition prevents many people from obtaining competitive (if any) employment. Due to the prior cut-backs and the increase of unemployment, our Vocational Training Center is suffering a loss in contracts and has a waiting list. Activity Center, serving 42 clients, is in danger of being closed.

In this office we work with 77 adults who are mentally retarded through our Citizen Advocate Program. Of those 77, 45 are unemployed and we know of many others who are unemployed who are not in our program. Some of our people are employed under CETA grants which will run out soon and there is little indication that the majority of those will be kept at their present place of employment. Six of the unemployed are in the appeals process for Supplemental Security Income. One of those cases has been heard but we have been waiting for a decision from the judge for over five (5) months.

While some of these people wait to be served, they are moving from one friend to another, sleeping on cots, chairs or the floor; and eating from their friends' already meager food supplies. Some of them are being "used" by drug pushers who are friendly to them and are learning prostitution and pimping as a means of survival.

We may be forced to place many of these people in our institutions as the situation gets worse, but is that really a desired outcome? The total revenue during 1977-1978 for Community Residential Facilities was $484 million. The total revenue for Public Residential Facilities during that same year was $2.63 billion. Average per diem costs in Community Residential Facilities $16.40 for 6-15 residents while average per diem costs in Public Residental Facilities are $46.82 in facilities of 1600+ residents

and $60.05 for under 500 residents (Bruininks, University of Minnesota - Survey on Public and Residential Services).

In the same survey, it is reported that only 18% of the residents in Community Residential Facilities and 20% in Public Residential Facilities have chronic health problems. We are attempting to establish more Community Residential Facilities in North Dakota. Most, if not all, of the residents in Community Residential Facilities are recipients of Supplemental Security Income, which pays for a substantial share of their housing needs. If their eligibility depends on a "preponderance of medical problems", that could render a possible 82% of the Community Facility residents ineligible and 80% of the Public Facility residents.

The present situation in North Dakota could now be described as very critical and if these proposals are approved just as efforts to improve the situation are being made, the situation could become chaotic.

An annex building at one of our institutions that was designed to house 88 residents, presently houses 188. All of the other buildings are overcrowded to one degree or another. It is not difficult to imagine the kinds of unhappy living conditions that such over-crowding facilitates.

Our efforts are being blocked at every turn. We have received much information containing the rationale of the Administration, the Department of Health and Human Services and the Office of Management and Budget for proposed budget cuts and changes in eligibility requirements.

We have received no information that will enable us in our efforts to find assistance for those who have lost, are losing or are looking for assistance for the first time. We are faced with a "preponderance " of problems.

We look to you, Mr. Chairman and the members of this Committee for help. We urge you to prevent these proposals from becoming a reality.

Thank you for your consideration.

STATEMENT OF ALFRED W. BLUMROSEN,

PROFESSOR OF LAW, RUTGERS LAW SCHOOL

I am a Professor of Law at Rutgers Law School, Newark, New Jersey, and Of Counsel to Kaye, Scholer, Fierman, Hays & Handler, a law firm with offices in New York and Washington. This statement is based on my extensive experience in Equal Employment Opportunity and Labor law. I do not represent any clients in making this statement. I testified at some length on a predecessor bill. That testimony appears at Hearings, Unemployment Compensation Bills, H.R. 6540, H.R. 6690, and H.R. 7529, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, House of Representatives June 26, 1980, p. 204 and I will not burden the Committee's record by repeating it. I would appreciate it being incorporated into this record by reference.

My initial interest in encouraging employers to consider a short work week as an alternative to layoff arose in connection with employment discrimination. Where employers had recently hired minorities and women, a concern arose during the recession of the early seventies, that "last

in-first out" layoffs would wipe out employment gains which had recently been made by minorities and women. Professor Ruth Blumrosen and I wrote an article on that subject, a part of which is attached to this statement for your record. She will address that issue more extensively.[1]

My emphasis today is on the assistance which the bill will give us in deciding whether we should adopt the four day week as the normal work week. Many employers who opt for short time compensation will put employees on a four day week. Thus, we will have created a social laboratory in which to study its effects on employee productivity and on managerial problems and their solutions.

Our society values people in relation to their work yet we have chronic and frequently high unemployment. Thus, we have created a situation where, by our own social definition, a significant proportion of our citizens are doomed to "second class" status because they lack jobs.

All of our efforts, aside from those associated with war, to increase employment, from the Full Employment Act of 1946 through the CETA programs, have failed. One of the reasons for this failure is that our society, and

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1 Additionally, the bill does address one other problem raised in my earlier testimony; that of employers, such as those in the garment industry, who currently do reduce the work week rather than layoff employees. Their unemployment compensation costs cannot be increased without their consent. The short time compensation program is only triggered by an employer petition. Therefore, the question of whether to opt into the program will be a matter for collective bargaining where there is a union, or for unilateral employer decision where there is no union.

hence employers and employees, have not taken seriously jobs which are "artificially created." The only jobs worth taking seriously, in either the private or public sector, are those emerging out of the institutional needs of the employer. Jobs which are understood to be "make work" cannot be the basis of any long term program. "Real" or "meaningful" work is the only kind of work that "counts."

Therefore, I believe we must soon consider spreading this work more widely among the citizenry by going to a shorter work week.[2] This is more likely to come about during a depression, when we realize we all may be in the same boat with the unemployed, than during prosperity when selfish attitudes dominate. As this recession deepens, the feasibility of the four day standard work week increases. The labor movement was set against the idea of work-sharing when my wife and I proposed it in 1975, on the grounds that it would "spread the misery." The union movement is now either neutral or in favor of the underlying concept.

When we consider proposals for a four day standard work week, we must face many practical considerations. One is the effect of a four day week on productivity. Will employees be more productive because they have longer rest periods? Or will the more productive take second jobs,

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2 This "normal" four day week would be without government subsidy, as is the present 40 hour week.

and hence be less able on their primary job? Answers to this question are important because they will impact on the question of how wages should be adjusted.

Management will want to retain the existing hourly wage rate, while organized labor will want to retain the existing weekly wages at the time of any shift to the four day week. The "area of compromise" on this issue will be influenced by our experience with productivity during a four day week.

Secondly, management will have to develop methods of administering the four day week in a society which "does business" on a five day a week basis. What management techniques will work best under such circumstances? The answers to this question may come through experimentation encouraged by Short Time Compensation laws.

Finally, our industrial relations systems are not of one piece. They come in many forms and sizes, and are full of innovative and individually tailored programs. Therefore, the wider the experience with reduced workweeks encouraged by this bill, the more extensive will be the understanding of how such programs work when Congress considers the four day week. Therefore, I hope the provisions in the bill for studies of the operation of the short time compensation law will be interpreted by the Secretary of Labor and the state agencies, to include the impact on productivity and the management systems which are administered by employers who put this program to work.

In this way, a concern initiated by the problem of equal employment opportunity may provide experience useful in shaping a national policy toward employment for all of our people.

THE DUTY TO PLAN FOR FAIR EMPLOYMENT REVISITED: WORK SHARING IN HARD TIMES

28 Rutgers Law Review 1082 (1975)

ALFRED W. BLUMROSEN*

RUTH G. BLUMROSEN**

I. TITLE VII AND GOOD TIMES

The initial application of the Equal Employment Opportunity provisions of the Civil Rights Act of 1964 took place during the prosperity of the mid-1960's.[1] The law began to have a measurable impact on employment opportunities for minorities and women around 1968. During this period the courts and agencies were primarily concerned with recruitment, hiring,[2] and promotion[3] practices in an economic context

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* Professor of Law, Rutgers University; A.B., J.D., University of Michigan; Chief of Conciliations, Federal State Relations, EEOC, 1965-1967; Consultant to federal, state, and local agencies dealing with Equal Employment and Equal Housing Opportunities, 1967-1973; Advisor to governmental and private parties since 1973.

** Associate Professor, Graduate School of Business Administration, Rutgers University; A.B., J.D., University of Michigan; Acting Chief, Advice and Analysis, EEOC, 1965; Consultant on Employment and Housing Opportunity laws, 1967 to date.

The concepts discussed here evolved during the fall of 1974 from a series of seminars on Equal Employment Opportunity in which we participated with former Assistant Secretary of Labor Arthur A. Fletcher, from consultations with private and governmental institutions, and from several discussions with Commissioner Elean Holmes Norton of the New York City Human Rights Commission. These concepts were first discussed publicly on March 5-6, 1975, at a seminar on "Affirmative Action and Seniority in a Recessionary Period," sponsored by the National Urban Coalition in Washington, D.C. A preliminary version of this analysis, entitled *Layoff or Work Sharing: The Civil Rights Act of 1964 in the Recession of 1975*, was published in 1 EMPLOYMENT REL. L.J. 2 (1975).

1. Title VII—Equal Employment Opportunity of the Civil Rights Act of 1964, §§ 701 *et seq.*, Pub. L. No. 88-352, 78 Stat. 253 (1964), *as amended* 42 U.S.C. §§ 2000e-1 *et seq.* (Supp. III 1973). The first major settlement under Title VII took place at a shipyard whose principal business was building naval vessels. This set the pattern for plant-wide adjustments now standard for government contractors under Executive Order No. 11246, 3 C.F.R. 339 (1965). *See* A. BLUMROSEN, BLACK EMPLOYMENT AND THE LAW ch. 8 (1971) [hereinafter cited as BLACK EMPLOYMENT].

2. In 1968 we asserted that there existed under the law a "duty of fair recruitment." Blumrosen, *The Duty of Fair Recruitment Under the Civil Rights Act of 1964*, 22 RUTGERS L. REV. 465 (1968) [hereinafter cited as *The Duty of Fair Recruitment*]. Professor Meltzer, as hearing panel chairman in the *Allen-Bradley* case, held that such a duty existed under Executive Order 11246, prohibiting discrimination by government contractors. *In re* Allen-Bradley Co., OFCC Docket No. 101-68, CCH LAB. L. REP. ¶ 8605 (Dec. 17, 1968), *aff'd*, Secretary of Labor, Docket No. 101-68, CCH LAB. L. REP. ¶ 870 (Jan. 16, 1969). In 1969, the concept was endorsed by the Equal Employment Opportunity Commission. EEOC Decision No. 70,158, 2 F.E.P. CAS. 238 (Sept. 16, 1969), CCH EEOC DEC. ¶ 607-0 (1973) (unequal referral of job applicants by employment agency violates Title VII); EEOC Decision No. 70,300, 2 F.E.P. CAS. 338 (Nov. 18, 1969), CCH EEOC Dec. ¶ 6086 (1973) (preemployment standard of employee recommendation violates Title VII). In 1971 it was adopted by Eighth Circuit

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where opportunities were expanding. The objective of the law was to assure that minorities and women would have a fair share of these expanding opportunities. Prior experience had made it clear that expansion of employment opportunities without enforcement of equal opportunity laws would not significantly improve the position of minorities and women in the labor force.[4]

The Supreme Court's adoption and use of the "effect test"[5] to define employment discrimination prompted employers to change recruitment practices, establish timetables for employment of minorities, and give long-service minorities and women the promotional opportunities which had been denied them. Under this test, "practices, procedures or tests neutral on their face, and even neutral in terms of intent, cannot be maintained if they operate to 'freeze' the status quo of prior discriminatory employment practices. . . . operat[e] to exclude Negroes. . . . [or] operate as 'built-in headwinds' for minority groups . . . ."[6]

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in *Parham v. Southwestern Bell Tel. & Tel. Co.*, 433 F.2d 421 (8th Cir. 1971). *See also* United States v. Sheet Metal Workers Local 36, 416 F.2d 123 (8th Cir. 1969). The Labor Department ordered the construction industry in Philadelphia to use goals and timetables for minority hiring. *See* Contractors Ass'n v. Secretary of Labor, 442 F.2d 159 (3rd Cir.), *cert. denied*, 404 U.S. 854 (1971). It also ordered all government contractors to develop goals and timetables to correct "deficiencies" and "under-utilization" of minorities. OFCC, Revised Order No. 4, 41 C.F.R. ch. 60-2 (1971). By 1973, several courts had approved the use of numerical standards or "goals and timetables" as an appropriate method of correcting discrimination in recruitment and hiring. *See, e.g.*, Carter v. Gallagher, 452 F.2d 315 (8th Cir. 1971). *See generally* Blumrosen, *Quotas, Common Sense and Law in Labor Relations: Three Dimensions of Equal Opportunity*, 27 RUTGERS L. REV. 675 (1974) [hereinafter cited as *Quotas, Common Sense*].

3. *See, e.g.*, United States v. NL Indus., 479 F.2d 354 (8th Cir. 1973); Rowe v. General Motors Corp., 457 F.2d 348 (5th Cir. 1972); United States v. Bethlehem Steel Co., 446 F.2d 652 (2d Cir. 1971); Local 189, Papermakers v. United States, 416 F.2d 980 (5th Cir. 1969), *cert. denied*, 397 U.S. 919 (1970).

4. *See* BLACK EMPLOYMENT, *supra* note 1, at ch. 1, Appendix to ch. 6.

5. The Court adopted the test in *Griggs v. Duke Power Co.*, 401 U.S. 424 (1971). Chief Justice Burger defined discrimination as follows:

> [P]ractices, procedures, or tests neutral on their face, and even neutral in terms of intent, cannot be maintained if they operate to "freeze" the status quo of prior discriminatory employment practices.
>
> . . . The Act proscribes *not only overt discrimination but also practices that are fair in form, but discriminatory in operation.* The touchstone is business necessity. If an employment practice which operates to exclude Negroes cannot be shown to be related to job performance, the practice is prohibited.
>
> . . . [G]ood intent or absence of discriminatory intent does not redeem employment procedures or testing mechanisms that operate as "built-in head winds" for minority groups and are unrelated to measuring job capability. The Company's lack of discriminatory intent is suggested by special efforts to help the undereducated employees through Company financing of two-thirds the cost of tuition for high school training. But Congress directed the thrust of the Act to the *consequences* of employment practices, not simply the motivation.

Id. at 430-32 (emphasis added).

On the general concept of discrimination under Title VII, see Blumrosen, *Strangers in Paradise: Griggs v. Duke Power Co. and the Concept of Employment Discrimination*, 72 MICH. L. REV. 59 (1972).

6. Griggs v. Duke Power Co., 401 U.S. 424, 430-32 (1971).

This broad concept was adopted to assure, as the Supreme Court later said, "that childhood deficiencies in the education and background of minority citizens, resulting from forces beyond their control, not be allowed to work a cumulative and invidious burden on such citizens for the remainder of their lives."[7] The Court recognized "business necessity" as a justification for such otherwise illegal practices, but this concept has been narrowly construed.[8] The massive application of the effect test produced measurable results by 1973. Wattenberg and Scammon wrote in *Commentary* that year:

> . . . the sharpest relative gains in the last decade were made by black families under 35. If this pattern continues—and there is no reason to believe it will not—it will of its own weight continue to move the total black-white numbers closer to parity. . . . A black who enters the civil service, or a labor union, at age 25—because he had suitable education or apprenticeship training—will not only not lose ground as he ages, but will gain all the normal advantages of seniority.[9]

Similarly, Freeman analyzed the sixties and early seventies as follows:

> Specific groups of black workers—women, young men, young male college graduates—experienced especially large economic gains. By the 1970s black women had earnings as high as, or higher than, comparable white women in the country as a whole; young black male college graduates earned as much as their white counterparts; and the black-white income ratio for young men in general was 0.85, considerably above ratios in years past.[10]

Women workers as a whole also experienced a major increase in employment during the period, with the growth concentrated in the white-collar and service sectors. The number of women workers increased by nine million between 1960 and 1971, with one half of this increase representing workers under 25 years of age. "These figures suggest that women are indicating a far greater propensity to work and to avoid interruptions in their careers—changes partly induced by heightened demand for workers with white collar skills and further stimulated by the changing status and outlook of women during the preceding decade."[11]

But just as the country appeared to have settled the difficult question of the appropriateness of the use of goals or quotas for increasing equal opportunity hiring,[12] hard times set in—recession or depression depend-

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7. McDonnell Douglas v. Green, 411 U.S. 792, 806 (1973).
8. *See* note 27 *infra*.
9. Wattenberg & Scammon, *Black Progress and Liberal Rhetoric*, 55 COMMENTARY 35, 41 (1973).
10. Freeman, *Changes in the Labor Market for Black Americans, 1948-1972*, [1973] BROOKINGS PAPERS ON ECON. ACTIVITY 67, 118. *See generally id.* at 118-20.
11. U.S. DEP'T OF LABOR, MANPOWER REPORT OF THE PRESIDENT 65-66 (1973).
12. *See Quotas, Common Sense, supra* note 2.

ing on one's perspective, politics, or sentiments. Unemployment rates rose as employers, both public and private, began to focus on reduction in their labor forces. Characteristically, their attitude toward this reduction has reflected concern both for protecting the equity of the senior worker and for continuing efficiencies by selective layoffs.

Particularly where collective bargaining agreements exist, employers have emphasized length of service in connection with layoffs,[13] applying the last-in, first-out principle to reduce their labor force. Protection of senior employees has traditionally been a central objective of American unionism. It has helped humanize the work place and has allowed the worker to a limited extent to capitalize his labor, thereby obtaining something more than the day's bread in exchange for his humanly limited capacity to produce. Last-in, first-out preserves the fundamental equities of workers who devote their life energies to an employer. When it is applied in a market where minorities and women have only recently been hired, however, it threatens the gains they have made.[14]

Those with an historical perspective may recall that just about 100 years ago the legal gains for blacks won through the Civil War were sharply curtailed by the Compromise of 1877.[15] There has been a deep concern that, in our time as well, rights won in the 60's might be eroded in the 70's. Minorities and women might once again, as in World War II, be used as a reserve labor pool, to be called upon only during emergency or prosperity.[16] Such treatment would produce a special kind of bitterness among those who had but recently achieved the social,

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13. Longevity is also recognized in the policies of nonunionized private firms and in civil service regulations.

14. The U.S. Dep't of Labor News Release, The Employment Situation: March 1975 (Apr. 4, 1975), reported that unemployment had increased from 5.1 to 8.3 percent from the preceding year. White unemployment was up 3 percent while minority unemployment was up 4.5 percent; male unemployment was up 2.9 percent while female unemployment was up 3.1 percent. *Id.* at Table A. Unemployment of white males age 20 and above rose from 3.0 to 6.2 percent (up 3.2 percent), while unemployment of minority males age 20 and above rose from 6.6 to 11.8 percent (up 5.2 percent). *Id.* at Table A-2.

15. C. VANN WOODWARD, REUNION AND REACTION (1951).

16. Claims of workers to continuous employment relations with their employer were not recognized in precollective bargaining era, when contracts of employment were presumptively at will. Collective bargaining established a network of expectations concerning continued employment, arising out of seniority provisions respecting layoff and prohibitions on discharge except for just cause. When these expectations were modified by company-union amendments to the collective bargaining agreements, a legal issue arose as to the conditions under which the expectations of the workers could be defeated. One of the earliest cases concerning the nature of such claims arose during the depression of 1929, when a company and a union negotiated a change in the seniority system to require the discharge of married women. This agreement was upheld by the Michigan Supreme Court. Hartley v. Brotherhood of Ry. & S.S. Clerks, 283 Mich. 201, 277 N.W. 885 (1938). Such a provision would now, of course, be illegal. *See* Phillips v. Martin Marietta Corp., 400 U.S. 542 (1971).

economic, and dignitary advantages of new work opportunities, now to be thrown back to unemployment lines, and ultimately to welfare.

The initial result of the conflicting equities was indecision. In the spring of 1975, while the President was predicting an unemployment rate close to eight percent through 1977, federal, state, and local agencies were considering guidelines to shape a resolution of the problem.[17] Employers were caught in the middle. They were subject to possible liability under equal opportunity laws if they followed the principle of last-in, first-out and to possible liability under collective bargaining agreements if they did not. A few employers, unions, and minorities turned to the courts, which gave conflicting answers.[18] But the impera-

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17. In January 1975, the New York City Commission on Human Rights adopted the following "Interpretative Memorandum" concerning procedures required by federal, state, and local anti-discrimination laws when an employer is planning a reduction in labor costs that could result in layoffs:

> A. Employers faced with the necessity to reduce the numbers of hours worked shall conduct said reduction in accordance with the principles of *Griggs v. Duke Power Co.*, 401 U.S. 424 (1971).
> B. Where employers have only recently hired minorities and women in significant numbers in jobs, departments, other units or subdivisions of work, any reduction of hours which is accomplished by laying off the most recently hired will have an adverse effect on such minorities and women compared with earlier hired personnel.
> C. Under these circumstances the principle of *Griggs v. Duke Power Co.* requires that an employer determine whether there is any feasible way of reducing hours worked which will not have said adverse effect or will have lesser adverse effect. If such an alternative can be identified, for example, reduction of personnel costs other than wages, or institution of a four-day week for all workers, then such alternative must be adopted.
> D. Where there exists no feasible alternative to alyoffs, then the use of layoffs may constitute a business necessity under *Griggs v. Duke Power Co.*
> E. However, even in conducting layoffs based on business necessity, the employer is required to minimize the adverse effect on minorities and women. He may do this by, for example, seeking volunteers to take a temporary leave, or conducting the layoffs on a rotating or alternating basis.

New York City Comm'n on Human Rights, Interpretive Memorandum, Jan. 1975.

18. *Compare* Watkins v. Steelworkers, Local 2369, 10 F.E.P. Cas. 1297 (5th Cir. 1975); Jersey Cent. Power & Light Co. v. IBEW, 508 F.2d 687 (3d Cir. 1975); Waters v. Wisconsin Steel Works, 502 F.2d 1309 (7th Cir. 1974) (upholding the use of last-in, first-out even though minorities or women adversely affected) *with* Schaefer v. Tannian, 10 F.E.P. Cas. 897 (E.D. Mich. 1975); Chance v. Board of Examiners, 10 F.E.P. Cas. 1023 (S.D.N.Y. 1975); Loy v. City of Cleveland, 8 F.E.P. Cas. 614, 617 (N.D. Ohio 1974).

See also Williamson v. Bethlehem Steel Corp., 468 F.2d 1201 (2d Cir. 1972), *cert. denied*, 411 U.S. 931 (1973) ("recall privileges after an extended layoff which operate to the residual disadvantage of black workers who had been discriminated against by a seniority system can violate Title VII . . . ."); *id.* at 1205; Rowe v. General Motors Corp., 457 F.2d 348 (5th Cir. 1972):

> . . . Starting with the 1962 plant segregation and the policy of layoffs and rehirings on some sort of "seniority" basis, the disadvantage suffered by the blacks hired after 1962 in layoffs and rehiring is the direct result of the prior segregation policy. This is to make Blacks continue to suffer long after 1965, the effect of race discrimination long after Congress has forbidden it either in current application or as some sort of reincarnation of days gone by. Although GMAD [G.M.'s Atlanta Plant] could rightfully consider the position of Whites who had been laid off for these reasons it could not—without more at least—treat the recently hired and governmentally twice emancipated Blacks as persons who once again had to go to the foot of the line.

Id. at 358.

tives of the economic situation would not await the stately pace of legal resolution. 1975 began with massive layoffs by employers, frequently following the last-in, first-out principle.

Faced with inaction by administrative agencies and conflict among the courts, it became imperative to find a solution which comported with fundamental principles of equal employment opportunity law and the legal and human realities of labor relations. During the first decade under Title VII, the country had not faced the question of equal employment opportunity in hard times. The highly developed body of law dealing with an expanding economy gave little guidance in a recession. The problem was a new one in the interpretation of the statute. It was therefore unfortunate that the first cases arising in connection with the recession dealt with the principle of last-in, first-out rather than the question of whether any layoff was proper. The focus on "last-in, first-out" set the stage for a conflict between "labor union" and "civil rights" interests which would shed far more heat than light. More importantly, it obscured the underlying issue of the employer's responsibility to plan operations to provide equal employment opportunity in a declining work force situation.

Once this issue is exposed and resolved, the "layoff problem" is reduced to manageable proportions. We conclude that the employer has a duty to plan operations to provide equal employment opportunity and that compliance with this duty will minimize the potential conflict associated with the layoff problem. 19

* * *

II. The Duty to Plan for Fair Employment Revisited

In 1971, we suggested that there was a "duty to plan for fair employment" implicit in Title VII.[20] Now, four years later, we believe that the duty has been sufficiently recognized so that it constitutes a basic premise in the analysis of the problem of reduction in hours.

The starting point remains *United States v. Hayes International Corp.*[21] The company, which had previously restricted black workers to subordinate jobs, had received a contract to repair military aircraft. The United States sought a preliminary injunction to require the employer to use the new employment opportunities thus created to improve the position of the black workers. The preliminary injunction was refused by the district court. The court of appeals reversed, holding that it was error to refuse the injunction where the government had established a prima facie case of discrimination.[22]

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19. For a summary of industrial experience, see U.S. Bureau of Labor Statistics, Dep't of Labor, Bull. No. 1425-13, Layoff, Recall and Worksharing Procedures (1972) [hereinafter cited as Layoff, Recall and Worksharing Procedures]. See also Slichter, Healy & Livernash, The Impact of Collective Bargaining on Management, ch. 6 (1960).

20. Blumrosen, *The Duty to Plan for Fair Employment: Plant Location in White Suburbia*, 25 Rutgers L. Rev. 383 (1971).

21. 456 F.2d 112 (5th Cir. 1972).

22. *Id.* at 120.

This decision foreshadowed a general duty on the part of employers to adapt their practices in new situations to the requirements of equal employment opportunity. In *Hayes*, the requirement was to open new opportunities for incumbent employees previously restricted because of race. Employers in the construction industry who acquire a new work force on each construction job constantly encounter such new work opportunities. Decisions arising out of this setting make clear that the employer must plan the allocation of these job opportunities to provide for fair employment.[23]

New employment opportunities arise in other industries as well. All of the "seniority cases" hold that employers must revamp their promotion practices to assure that these new opportunities are made available on a basis which does not perpetuate past discrimination.[24] These cases represent the converse of the "layoff problem" because they involve minorities and women who are senior in terms of plant service, but are subordinated to later hired whites by departmentalized seniority systems. The cases hold that promotional opportunities and order of layoff for these minorities and women must be planned to recognize their relative plant seniority over later hired whites and males. The recruitment and hiring cases, involving "goals and timetables," "affirmative action," or "quotas," also require that an employer plan expansion of his work force so as to assure equal employment opportunity.[25]

The clearest illustrations of the duty to plan for fair employment arise in connection with the issue of business necessity. In *Griggs v. Duke Power Co.*, the Supreme Court defined discrimination as conduct which had an adverse impact on minorities or women and was not justified by business necessity.[26] In asserting the defense of business necessity, employers have argued that particular adverse impacts were permissible because they could not effectively conduct their operations without such an impact. In assessing this defense, the courts have passed explicitly on the employer's plans for the conduct of the enterprise and have, on occasion, pointed out to employers how they could reduce the adverse impact and still carry out their operations.[27]

The *Griggs* principle necessarily reaches the employer's planning functions. Duke Power Company's plans to develop a "generally able" work force led it to adopt high school diploma and testing requirements.

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23. *See, e.g.*, Contractors Ass'n v. Secretary of Labor, 442 F.2d 159 (3d Cir.), *cert. denied*, 404 U.S. 854 (1971); United States v. Sheet Metal Workers Local 36, 416 F.2d 123 (8th Cir. 1969); Local 53, Asbestos Workers v. Vogler, 407 F.2d 1047 (5th Cir. 1969).

24. *See* United States v. NL Indus., 479 F.2d 354 (8th Cir. 1973); Rowe v. General Motors Corp., 457 F.2d 348 (5th Cir. 1972); United States v. Bethlehem Steel Co., 446 F.2d 652 (2d Cir. 1971); Local 189, Papermakers v. United States, 416 F.2d 980 (5th Cir. 1969).

25. See cases and material cited in note 2 *supra*.

26. 401 U.S. 424, 431 (1971).

27. The "minimum adverse impact principle" is outlined in *Head v. Timken Roller Bearing Co.*, 486 F.2d 870 (6th Cir. 1973): (quotation omitted)

The Court found that these plans could not justify the adverse impact created by their execution. Thus, wherever an employer practice or procedure is condemned under the *Griggs* principle and not saved by the business necessity defense, there is a rejection of an employer's plan for carrying out his business and a judgment that the employer could have achieved his business objective without inflicting such harm on minorities and women.

Where the employer has planned his activities in accordance with then applicable law, however, he has received judicial support. For example, in *Parham v. Southwestern Bell Telephone Co.*,[28] the employer's successful plan to increase minority employment earned him immunity from injunction. In *Manning v. International Union*[29] the employer was confronted with the then unclear mandate of Title VII to avoid sex discrimination and the demands of state law restricting female employment opportunities. During this period, when the law was not clear enough to guide the employer's planning, the Sixth Circuit held that the employer need not respond in damages to the female employees who were disadvantaged.[30]

From this welter of cases emerges the general proposition that all employer practices, and hence all plans for conduct of the enterprise, are to be scrutinized if they adversely affect minority and female employment opportunities.[31] This course of decision was confirmed by Congress in the 1972 amendments to Title VII.[32] The employer has a general obligation to take account of the impact on the classes protected by Title VII in all managerial decision-making. We must now analyze that obligation in the situation where an employer is required to reduce hours of work.

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28. 433 F.2d 421 (8th Cir. 1970).

29. 466 F.2d 812 (6th Cir. 1972), *cert. denied*, 410 U.S. 946 (1972).

30. *Id.* at 816.

31. This conclusion necessarily follows from the recognition that it is the operation of systems of industrial relations which have discriminatory impact, and that a change in the nature of the system, and hence a change in planning, may be required to eliminate the discriminatory effect. As the Senate Committee report prior to the 1972 amendments stated:

> In 1964, employment discrimination tended to be viewed as a series of isolated and distinguishable events, for the most part due to ill-will on the part of some identifiable individual or organization. . . . Experience has shown this view to be false.
>
> Employment discrimination as viewed today is a far more complex and pervasive phenomenon. Experts familiar with the subject now generally describe the problem in terms of "systems" and "effects" rather than simple intentional wrongs, and the literature on the subject is replete with discussions of, for example, the mechanics of seniority and lines of progression, perpetuation of the present effect of pre-act discrimination practices through various institutional devices, and testing and validation requirements.

S. REP. No. 92-415, 92d Cong., 1st Sess. 5 (1971) (footnote omitted).

32. *See* Hart & Sape, *Title VII Reconsidered: The Equal Employment Opportunity Act of 1972*, 40 GEO. WASH. L. REV. 824 (1972).

III. Title VII in Hard Times: Reduction of Hours of Work

A. *Work Sharing Avoids Adverse Effects*

Under the impact of recession, employers may be pressed to reduce the hours of work either as a general economy move created by a squeeze between higher costs and a sluggish market or as the result of reduced demand for the product or service which, in the case of a product, may have led to a buildup of inventory, consequent warehousing problems, and downward pressure on price. We will concentrate on the case of a reduction in demand which is translated into a need to reduce production and, consequently, to reduce hours of work.

Under the principle outlined in the preceding section—that an employer has a duty to plan his activities so as to provide for fair employment—the reduction of hours must be carried out in a manner which does not have an adverse effect on minorities and women unless the effect is justified by business necessity. Thus the employer is required to assess the probable effects of various methods of reducing hours.

Hours reduction can be accomplished by a variety of methods which can be used separately or in combination.[33] The employer may reduce or eliminate his dependence on part-time help—provided that this does not have an adverse impact—and his reliance on overtime. He may seek volunteers for short term leaves of absence or early retirement. These approaches normally do not pose Title VII problems and comport with modern concepts of industrial relations, provided the employer maintains an appropriately skillful and efficient work force.

In times of recession, however, workers may be more reluctant to indulge their personal desires and more likely to prefer steady work and income. Thus the employer may have to impose a specific practice or procedure to accomplish the needed reduction of hours. He usually does so either by distributing available work among the employees or by laying off some employees and allocating the work to the others.

Once an employer has examined the probable impact of either method of reducing hours, he can assess whether he is about to commit a Title VII violation. There are two traditional methods of layoff which may have the adverse effect proscribed by Title VII. One is to lay off employees on a last-in, first-out basis. This will have an adverse effect where the company has but recently begun to hire minorities and women. Another is a selective layoff, retaining the "most efficient" workers. This may produce the proscribed effect if it lays off a higher

33. For a description of the industrial experience, see Layoff, Recall and Work-sharing Procedures, *supra* note 19. See also Slichter, Healy & Livernash, The Impact of Collective Bargaining on Management ch. 6 (1960).

proportion of minorities and women than of other employees.[34] In addition, a "selective layoff" approach may offend the age discrimination act if it has an adverse impact on older workers.[35]

If a layoff would produce an adverse impact, the employer is obligated to plan to achieve his business objective in some other manner. Obviously, reduction in the hours worked by *all* employees would not have an adverse impact and is thus the preferable way of meeting the requirements of Title VII. Such work sharing can take many forms: for example, the closing of a production facility altogether for a period of time; or a reduction in the hours worked by all employees, as by using a shorter work week or a staggered work week.[36]

What problems will an employer face if he opts for a work sharing approach to reduction of hours? A nonunionized employer in the private sector who has not bound himself by individual contract to any specified work period faces no legal problems. He may, however, face human relations problems if informal expectations of maintenance of work schedules have developed. Such expectations must yield to the requirements of Title VII. An employer in the public sector may face problems arising out of the generally more rigid work conditions established by civil service regulations and/or collective bargaining. These requirements are also subject to Title VII.

B. *Work Sharing May Be Compatible With Collective Agreements*

A Department of Labor study of collective bargaining agreements reveals that 25 percent provide for some sort of work sharing,[37] while another study suggests that about ten percent of agreements have wage-employment guarantees.[38] These data indicate that about 90 percent of collective contracts do not provide for a guaranteed work week, and that there is, therefore, no express requirement of maintenance of hours for senior employees, which might be violated by a work sharing approach.

If the contract language does not clearly guarantee specific numbers

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34. *See* EEOC DEC. 75-251, 10 F.E.P. CAS. 1405 (May 8, 1975). Similarly, an "experience" requirement, used to allocate employment opportunities where minorities have not had the opportunity to obtain the experience or where it is a pretext for a length of service requirement in a context where minorities have been denied certain kinds of work opportunities, has been invalidated. *See, e.g.*, Rowe v. General Motors Corp., 457 F.2d 348 (5th Cir. 1972); United States v. Jacksonville Terminal Co., 451 F.2d 418 (5th Cir. 1971).

35. *See, e.g.*, Hodgson v. Greyhound Lines, Inc., 499 F.2d 859 (7th Cir. 1974), *cert. denied sub nom.* Brennan v. Greyhound Lines, Inc., 419 U.S. 1122 (1975).

36. *See* LAYOFF, RECALL AND WORKSHARING PROCEDURES, *supra* note 19.

37. *Id.*

38. U.S. BUREAU OF LABOR STATISTICS, DEP'T OF LABOR, BULL. NO. 1425-3, SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLANS AND WAGE EMPLOYMENT GUARANTEES 62 (1965) [hereinafter cited as UNEMPLOYMENT BENEFITS].

of hours to senior employees, it may permit the employer to adopt work sharing, using one of the techniques described above. An employer would obviously prefer to avoid the adverse impact of a layoff and thus comply with Title VII by a method which is compatible with his collective bargaining obligations.

Where a collective contract does not expressly guarantee a certain number of hours of work for senior employees, the question of whether such a guarantee is to be implied from a last-in, first-out layoff clause has been raised before arbitrators in a number of cases. A flurry of reported arbitration opinions on this question arose out of the recession of 1958-1960.[39] An analysis of these cases reveals a mixed set of arbitral opinions. Where the contract is clear, the arbitrators follow it. Where it is not, the decisions vary, depending on: (1) the arbitrator's conception of whether work sharing and layoff are closely related activities;[40] (2) the arbitrator's deference to the "management prerogative" to schedule production;[41] and (3) the arbitrator's sensitivity to the importance of the perquisites of seniority.[42]

Many of these cases arose in the period immediately preceding the passage of Title VII. Thus we can conclude that the question of whether work sharing was impliedly prohibited by a last-in, first-out seniority clause was not settled in the industrial relations community at the time of the passage of the act. The "common law of the shop" reflected differing views based on different arbitral weighing of the policy factors involved. Certainly, if the contract as construed does not guarantee work to senior employees, Title VII may not be construed to give them greater rights at the expense of recently hired minorities and women.

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It is obvious that the entire set of problems created by the recession cannot be addressed simply by dealing with the layoff problem. Larger issues, such as the question of the four-day week in general, the revision of unemployment compensation systems, and the adoption of "full employment" policies, are obviously crucial in dealing with the overall problem. Nevertheless, the layoff issue may be the cutting edge of larger national solutions. The adoption of the underlying concept that the only fair way to handle the recession is to require a sharing of its burdens will facilitate national solutions to related issues. Conversely, if the burden is allowed to rest on the weak, the recently emancipated minorities and women, there is a genuine risk that it will remain there permanently.

This is not an acceptable solution: "The ethic which permeates the American dream is that a person may advance as far as his talents and his merit will carry him. And it is unthinkable that a citizen of this great country should be relegated to unremitting toil with never a glimmer of light in the midnight of it all."[91]

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39. *See, e.g.*, Cook Mach. Co., 35 Lab. Arb. 845 (1960); Motch & Merryweather Mach. Co., 32 Lab. Arb. 492 (1959).

40. "A layoff and a reduction in hours are clearly two different things." Rex Chainbelt, Inc., 52 Lab. Arb. 852, 856 (1969). *See also* Basic, Inc., 31 Lab. Arb. 933 (1958). *But see* Kennecott Copper Corp., 32 Lab. Arb. 244, 247 (1959) ("By instituting a shortened work week below a standard five-day week, the company in effect has avoided many gains a senior employee has acquired through length of service."). *See also* Morris Mach. Works, 40 Lab. Arb. 456 (1963); Line Material Indus., 35 Lab. Arb. 936 (1960).

41. For cases emphasizing management prerogative clause, see Lear Siegler, Inc., 58 Lab. Arb. 984 (1972); Struthers Wells Corp., 34 Lab. Arb. 372 (1959); Blaw-Knox Co., 32 Lab. Arb. 746 (1959); Basic, Inc., 31 Lab. Arb. 933 (1958); Nolte Brass Foundry Co., 24 Lab. Arb. 874 (1955). All these cases refuse to imply an obligation to lay off rather than reduce hours.

42. For cases emphasizing seniority interests and implying an obligation to lay off when necessary to preserve senior employees' work opportunities, see Line Materials Indus., 35 Lab. Arb. 936 (1960); Motch & Merryweather Mach. Co., 32 Lab. Arb. 845 (1960); Kennecott Copper Corp., 32 Lab. Arb. 244 (1959).

91. Miller v. Int'l Paper Co., 408 F.2d 283, 294 (5th Cir. 1969).

STATEMENT OF RUTH G. BLUMROSEN

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I am an Associate Professor at the Graduate School of Management, Rutgers, the State University of New Jersey and an attorney. For the past twenty years I have specialized in the areas of labor law, equal housing and employment opportunity. During this time I have taught in these areas, and have served as advisor to the United States government, state and local governments, employers, unions, and individual workers. Most recently I have been consultant to the Department of Health and Human Resources on internal EEO, and to the Equal Employment Opportunity Commission, where I concentrated on issues of wage discrimination and problems of layoffs and worksharing. I testified at some length on H.R. 7529 in 1980. That testimony appears at Hearings, Unemployment Compensation Bills, H.R. 6540, H.R. 6690, and H.R. 7529, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, House of Representatives, June 26, 1980, p. 208. I will not repeat it here. I would, however, appreciate it being incorporated into this record by reference. I will also not burden this record

by repeating the arguments for STC, which others have presented so ably. I would like to adopt by reference the statement on "Short Time as an Alternative to Layoffs" presented by Representative Schroeder (1980 Hearings, supra at p. 31) which sums up the advantages for workers, employers, unions, and society of compensated worksharing and succinctly answers many of the questions and objections that have been raised in the past.

These hearings have addressed two issues that can usefully be separated: Is STC a good idea and is the Schroeder Bill, the Short Time Compensation Act of 1982 needed or useful? On the first question, I believe that the information and arguments set forth in the Schroeder statement covers most of the reasons why STC is a good idea which should be encouraged.

I wish to make one additional point on the usefulness of the STC option for decision makers faced with the need to reduce production and/or labor costs. The present state of the law is such that almost anyone trying to decide how to do a layoff or reduction in force soon realizes that almost every choice may be buying a lawsuit. While not all employers will need or be able to take advantage of a Short Time Compensation option, other employers and union may find that the availability of short time compensation is an optimum alternative to litigation-fraught choices.

I first became interested in worksharing as an alternative to layoffs and became an advocate of payment of unemployment benefits to workers put on shorter work-weeks during the 1973-75 recession. At that time the interest groups were polarizing around the question of how to conduct a layoff. Where employers had only recently begun to hire and promote minorities and women, most labor management agreements apparently required "last in first out" by inverse order of seniority which would wipe out the employment gains achieved through affirmative action. Professor Alfred W. Blumrosen and I wrote an article on that subject, a part of which is attached to his testimony. We there suggested that the wrong questions were being asked. That instead of asking <u>how</u> to do a layoff, attention should focus on the prior question, i.e., is a layoff necessary? Believing that the Congressional objectives in requiring the elimination of employment discrimination in Title VII of the Civil Rights Act of 1964 would be best served by practices which neither subordinated senior white to junior women or minorities, nor continued to favor white males at the expense of recently recruited minorities and women, we suggest that under some circumstances federal law might require some employers to use worksharing instead of laying off workers.

In the years since we first made the suggestion, the legal vulnerability of employers (and possibly of unions) for "doing a layoff" in the "wrong way" has become even more complicated and uncertain. For many faced with the dilemna, worksharing could provide the answer, if short time compensation were available. Worksharing without short time compensation is as unacceptable to some employees (and their unions) as layoff is to others. The vulnerability to lawsuits may not be reduced as much by worksharing if there is no provision for some income replacement.

Some illustrative aspects of the "catch 22" conditions under which the layoff question is played out include:

* Under Title VII, the decision to use a last in first out layoff if minorities and women constitute a significant percentage of the newest employees may be illegal if the employer cannot justify the use of the layoff by showing that no viable alternative was available.

* Under the Age Discrimination Act (ADEA) a selective layoff in which potential, age, cost are criteria or which otherwise results in the older employees being displaced may, under some circumstances, be illegal.

* If there is a collective bargaining agreement, the contract may require a last in first out layoff. Section 703(h) of Title VII allows an employer to follow the requirements

of a "bona fide seniority system". (See Inter. B. of Teamsters v. U.S: 431 U.S. 324 (1977)). The question, however, may be whether the layoff is "required". There are circumstances in which a layoff may not be required. These include:

(1) Over 25% of the major collective bargaining agreements provide for some worksharing possibilities.

(2) If the contract language does not explicitly and clearly guarantee specific hours of work to senior employee, it may permit the employer to adopt worksharing. Many arbitrators have so held.

(3) If the contract is construed not to guarantee work to senior employees, would a court be likely to construe Title VII to give them greater rights at the expense of minorities and women?

Moreover, most employees are not covered by collective bargaining agreements. Approximately 70% of the work force is not organized. Are non-union employers protected by the bona fide seniority exception if they claim they are following an unilaterally adopted seniority system, which they are not legally bound to follow? The Supreme Court (See American Tobacco Co. v. Patterson (1982)) recently said that 703(h) was intended to promote the national policy favoring collective bargaining and indicated that it applies only to collectively bargained seniority systems.

If to avoid the adverse affects of last in first out layoffs on minorities and women, or of a selective layoff on older workers, these groups are favored, the decision to not follow seniority may have a discriminatory impact on senior white males and result in a suit by them.

If a union refuses to process grievances from any of these groups, they may be charged with breach of the duty to fairly represent all members of the bargaining unit. In fact, no matter how a layoff is done, a union may be the target for dissatisfied groups who will allege that they were not fairly represented.

With such questions at the above open and even aside from the many other advantages to both employers and unions of STC (See Schroeder statement 1980 Hearings, supra, p. 33-34), the availability of STC could provide a legally defensible position when no other action might be so safe.

Moreover, in passing Title VII, Congress intended to encourage employers, labor organizations and others to voluntarily modify employment practices and remove barriers which adversely affect minorities or women. It would indeed be ironic if voluntary efforts to find alternative methods of reducing labor costs which do not have the disadvantageous impact of layoff were stymied because the states were not encouraged to permit STC. Thus, STC is needed by some

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unions and employers in order to mitigate the uncertainties as well as the cost of worksharing. The bill is needed to encourage the states to undertake the necessary changes.

(1) Federal leadership in encouraging states to experiment with different ways to accommodate worksharing within the UI system--as alternatives to financing only total unemployment--is not only appropriate, but may be a necessary catalyst for state efforts.

(2) While it will still be up to the governors and legislators in each state to effectuate the minor changes in state unemployment compensation laws that would allow unemployment compensation to be used to protect against partial loss of work, the leadership and authorization of the federal government should quicken that response.

(3) While the STC guidelines proposed in the Schroeder Bill focus primarily on permitting reduction from a five day week to a four day week, this is only one way in which work may be rescheduled when necessary to avoid a layoff. This legislation explicitly provides that the states should be encouraged to experiment, and that most of the guidelines are permissive suggestions of desirable protections, not intended to be straitjackets. Since state laws vary, so will the kind of changes that are needed to accommodate worksharing. While the partial payment

for reduced workweeks is likely to be the most used way of cutting, the legislative history, language and intent of the bill make it clear that states in modifying their UI systems--and employers and unions in scheduling work--are not restricted simply to a cutback from 5 to 4 days, but that they are authorized and expected to use their judgment and initiative to explore alternatives to layoffs and the short time compensation which make them viable.

STATEMENT OF ERIC J. OXFELD, EMPLOYEE BENEFITS ATTORNEY, CHAMBER OF COMMERCE OF THE UNITED STATES

On behalf of our more than 230,000 business, local and state chambers of commerce and association members, I welcome this opportunity to comment in favor of the Administration's spending proposals involving unemployment compensation (UC).

The U.S. Chamber recently reaffirmed its support for the President's program for Economic Recovery and endorsed those spending reductions proposed by the Administration on February 8, 1982. We believe, however, that outlay reductions beyond those proposed by the Administration must be made in order to reduce the deficit, preserve the Economic Recovery Tax Act and reverse the growth of the share of our gross national product accounted for by federal spending.

We strongly support the Administration's budget proposals governing the UC program. We also urge you to enact additional reform measures that will reduce the cost of unemployment benefits, improve the financing of program administration, and strengthen incentives for responsible financing of benefits. These measures will also result in federal budget savings.

I. Administration's Major Themes

Although 97% of American workers are covered by the regular UC program, a number also are eligible for supplementary benefits under approximately 20 separate federal programs serving limited constituencies. These special programs typically pay higher weekly benefits, and for a longer duration, than regular unemployment compensation. Experience with the special programs reveals that the added benefits are superfluous at best and, at worst, prolong the duration of unemployment.

- The largest and best known special program is Trade Adjustment Assistance (TAA). Trade benefits are available for claimants laid off from jobs in industries certified to be in decline because of foreign competition.

The Omnibus Budget Reconciliation Act of 1981 included a comprehensive reform of TAA unemployment benefits, but even after those reforms, TAA provides from 13 to 26 weeks of extra unemployment compensation payable solely because the job loss was caused by a foreign rather than a domestic competitor. These extra weeks of compensation are not only inequitable, but provide disincentives for claimants to seek new employment.

Advocates of TAA unemployment benefits have argued that TAA is essential to secure public support for free trade policies. That may have been true when TAA was first implemented because regular UC benefits were much more limited than today. Since the mid-60's, however, UC has become available for at least 6 months during periods of economic expansion, and it is automatically extended to 9 months when unemployment levels go up. Benefits have been raised--a record $23 billion is the projected payout in 1982--and eligibility has been

considerably loosened. Coverage has expanded to include 97% of the workforce. Clearly, there is less need than ever for extra benefits to compensate joblessness caused by foreign competition.

The Administration proposes to phase out the extra weeks of TAA benefits. Under this proposal, eligibility, amount, and duration of benefits for all claimants will be determined according to the regular federal-state unemployment insurance system. The proposal eliminates the inequity in the current law and reduces the incentives for TAA claimants to delay taking new jobs.

- Another program whose abuses have been well-documented is the Redwood Employee Protection Plan (REPP), created in 1978 to assist loggers whose jobs were eliminated when Congress established the Redwood National Park. REPP provides up to six years of weekly cash benefits that supplement regular UC--bringing combined benefits up to the amount of pre-lay-off wages--as well as retraining and relocation allowances and other benefits. Claimants receiving UC and REPP benefits have little incentive to find new jobs.

The Administration proposes to limit REPP benefits to eligible workers unemployed on or before December 31, 1978. Additional savings, however, could be achieved by phasing out REPP entirely instead of continuing lifetime income support for the able-bodied.

- Railroad Unemployment Insurance (RRUI) is a program administered by the Railroad Retirement Board independent of the regular federal-state unemployment insurance system. Benefits replace 60% of base-year wages, up to $125 a week, and last 26 weeks (extended by as much as 26 additional weeks depending on length of employment and the unemployment rate for the nation or the railroad industry).

The Administration proposes to place rail workers under the regular UC program as part of a phase-out of the railroad retirement system. Elimination of RRUI will result in higher unemployment benefits for most railroad employees, since weekly maximums in most states are well in excess of the current railroad unemployment insurance maximum. Nevertheless, these cost increases will be more than offset by savings from eliminating the remainder of the railroad retirement system.

II. Further Reform in the Unemployment Compensation Program

The over-riding problem in the UC program is the impending insolvency of the Unemployment Trust Fund. Eighteen jurisdictions have depleted their reserves, and the federal government has advanced funds out of general revenues in order to continue paying benefits. These advances totalled nearly $7 billion as of January. Additional advances of general revenues to the Extended Unemployment Compensation Account (EUCA) total $6 billion. Further advances to the states and EUCA are expected. Combined with the existing indebtedness, cumulative advances to the trust fund from federal general revenues are projected to total nearly $17 billion by the end of FY 1982. At that point, the trust fund will be technically bankrupt.

A number of the borrowing jurisdictions have never repaid advances received during the 1974-75 recession and are now in default, triggering an automatic increase in the Federal Unemployment Tax. That tax increase applies equally to all employers in a defaulting state, regardless of their individual claims records.

The Omnibus Budget Reconciliation Act of 1981 accomplished a number of important reforms in the UC program, and also placed a cap on the Federal Unemployment Tax increase for employers in defaulting states that take steps to restore solvency.

We oppose legislation to repeal or weaken these reforms.

In addition, we advocate a number of additional reforms to reduce costs, eliminate benefit inequities, and restore incentives for responsible financing. These include the following:

1. Unified budget Remove the Unemployment Trust Fund from the unified federal budget. At present states control outlays and income because they determine benefit amount and eligibility as well as employer tax rates. State-collected taxes, however, are held by the U.S. Treasury, and states do not include UC funds in their state budgets. Removing the trust fund from the federal budget and requiring states to include their UC accounts in their own budgets would give states greater incentive to insure that benefits are fully financed.

2. Partial repayment of loans Permit defaulting states to make partial repayment of their debt, by allowing them to repay from their trust account the equivalent of the amount raised by the incremental loss of Federal Unemployment Tax (FUTA) offset credit. At present a state may avoid default only by repaying its entire debt. If a state cannot raise the full amount (for example during an economic downturn when a large tax increase is inadvisable), it has no incentive to repay a smaller amount voluntarily because there will be an automatic FUTA increase anyway. If a state could avoid the FUTA increase by repaying the equivalent amount out of funds in its trust account, there would be added incentive to raise the funds voluntarily. This would allow the state to experience-rate the tax increase, more fairly allocating benefit costs to responsible employers.

3. Labor disputes Some states actually allow workers who strike to collect unemployment benefits, forcing employers to subsidize the strike. Even in states whose laws appear to prohibit strikers' benefits, courts have created loopholes allowing strikers to draw benefits. It is up to states to enact legislation closing such loopholes, but the federal government should prohibit extended benefits for claimants who are out of work because of a labor dispute.

4. Benefit extensions Under current law, states are required to pay extended benefits while the unemployment rate is above a set level, even though that rate is normal for that state's economy. For example, Alaska and Puerto Rico, which have high insured unemployment rates relative to other jurisdictions, have paid extended benefits continuously since 1975! States should be given the option to set their triggers for extended benefits at higher rates. Those triggers should lapse after two years unless there has been a 20 percent increase in unemployment.

5. Work incentives Claimants seeking extended benefits need additional work incentives to combat work disincentives created by the benefit extension.

States are required to pay extended benefits at the same weekly benefit rate as the last week of regular unemployment benefits. Federal law should limit the amount of extended benefits to 75 percent of the amount payable for the last week of regular benefits to provide greater incentive to take jobs, and no claimant should receive extended benefits that, together with regular benefits, total more than 75 percent of base period wages.

6. Administration costs Congress recently approved a supplemental appropriation requested by the Administration to provide funds to adminster UC claims and run the state Employment Service. Both functions are handled by the state employment security agencies, and are financed by grants of Federal Unemployment Tax revenues to the state governments. A supplemental appropriation was required because there were insufficient revenues in the administration account in the trust fund. Future deficits in administrative funds, however, could be reduced by requiring federal and state agencies and non-profit employers to contribute to the cost of claims administration and to pay the full costs of benefits.

At present, public sector and non-profit employers must reimburse the cost of benefits paid to their employees, but business must pick up the tab for administering such claims. In some states, these "reimbursable employers" are not even required to pay the full cost of benefits claimed by their employees, exacerbating financial strains on the trust fund.

7. Job finding A substantial savings could be accomplished by requiring all extended benefits claimants to participate in a program, to be run by the Employment Service, teaching claimants how to look for jobs. Not only would fewer weeks of benefits be payable as claimants find work, with an additional reduction in the administrative work load, but those applicants who are not seriously looking for work--or already have jobs in the "underground economy"--would be disqualified.

8. Fraud and abuse A recent federal study found that the true rate of improper payments was double the rate reported in the most accurate city and 40 times higher in the least accurate. We estimate that improper payments are costing the UC program $3 to $4 billion a year. Reducing that amount by enforcing existing law would result in significant savings.

CONCLUSION

The UC system has a serious fiscal problem. The cost-saving measures involving UC enacted as part of the Omnibus Budget Reconciliation Act of 1981 were important reforms that strengthened the program and reduced wasteful expenditures that discouraged employment. These measures resulted in federal savings.

New budget savings in the UC system have been proposed by the Administration, and we urge you to enact them. There is room, however, for further reductions in spending on UC, and such reductions would also reduce the financial strain on the UC Trust Fund as well as the federal budget.

STATEMENT ON BEHALF OF THE
EMPLOYEE BENEFITS AND RELATIONS COMMITTEE
OF THE
COUNCIL OF STATE CHAMBERS OF COMMERCE

The Council of State Chambers of Commerce is comprised of 34 State and regional chamber, commerce and industry organizations. This statement represents the views of the Employee Benefits and Relations Committee of the Council on HR-5251, HR-5284, HR-5452 and HR-6085. The Council does not profess to have a great deal of expertise in the concept of work sharing; therefore, this paper will not address that question other than to state that any program of work sharing should be financed solely by those employers and employees who use it.

As for the other issues before the committee, viz.:

1. Reinstitution of the National Trigger for Extended Benefits (EB).

2. Inclusion of EB claimants in the Insured Unemployment Rate (IUR) ratio.

3. Elimination of the changes in the State triggers scheduled for implementation September 25, 1982.

4. An addition of 13 weeks of benefits for the 40th through 52nd week of unemployment.

We are opposed to each of these proposals as they would virtually eliminate the progress made by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) and create an additional 13 weeks of benefits that are not warranted. Furthermore, these changes would increase the Federal budget deficits.

This paper addresses each of these items separately.

National Trigger for Extended Benefits

Presently, extended benefits (EB) can be triggered on when the State insured unemployment rate (IUR) in each State reaches a level which automatically triggers that State into EB. This system has been effective. As of April 10, 1982, 33 States are triggered on for EB. It is estimated that by the end of the year 46 States will be triggered on.

The national trigger was originally enacted because it was thought that when national unemployment is high an EB program in all States is desirable as it would increase purchasing power among the unemployed and, therefore, have an overall beneficial effect on the total national economy. In other words, pumping additional purchasing power into a State with low unemployment would help to relieve the problems in another State. Actual experience, however, does not show that the national flow-through effect is adequate justification for retention of this costly program. It is our belief that this national triggering mechanism continues to be unnecessary. We believe that, if a State's IUR is not abnormally high, the normal duration of benefits (usually 26 weeks) is sufficient. To pay

individuals in those States an additional 13 weeks of EB is inappropriate. Reinstitution of the national trigger would add significant cost to the total unemployment insurance system without benefitting affected individuals in States experiencing high unemployment.

Include Extended Benefit Claimants in the IUR

The next area of concern in the EB program is to add EB claimants to the computation of the IUR. Currently, extended benefits trigger on when the IUR in the States reaches certain levels. An EB period lasts a minimum of 13 weeks, but continues indefinitely while the IUR remains at or above the trigger levels. The reason for excluding EB claimants from the calculation is that their inclusion drastically increases the IUR even though the actual number of unemployed has not changed. To be specific, this procedure increases the numerator of the equation by the number of claimants receiving EB. This can increase the IUR by about 20%. For example, a State with a 5% IUR would realize approximately a 6% IUR if they triggered into EB. As a result of the increase in the IUR, the State trigger would stay "on" for a much longer time.

We believe that there has to be uniformity in the trigger on and off formulas if we desire to accurately calculate the appropriate length for an EB period. The inclusion of EB claimants in the triggering off calculation causes inequities between States. It creates situations whereby States can have the same IUR and yet an individual in one State may be eligible for EB but not in the other State. The Department of Labor under the Carter Administration recognized this problem and

attempted to rectify it through regulation. A Federal court, however, blocked that attempt on the grounds that Congressional action was necessary. The Omnibus Budget Reconciliation Act of 1981 rectified the problem and we recommend that this correction not be modified.

Elimination of the Changes in the State Trigger Scheduled for Implementation - September 25, 1982

The third proposal in the area of EB changes is to eliminate a change in the State EB trigger which becomes effective September 25, 1982. Under the changes in the Omnibus Budget Reconciliation Act of 1981, this Act changes the State trigger to 5 percent plus 120 percent, or allows the State to waive the 120 percent requirement if they are at 6 percent. This is a desirable and appropriate improvement in the State trigger. Presently, States are required to trigger into extended benefits whenever the IUR for the State is at least 4 percent and that figure is at least 120 percent of the average IUR during the comparable period in the two prior years. Present law also gives States the option to have EB periods begin when the State IUR reaches 5 percent without applying the 120 percent factor. We continue to support the changes which are effective September 25, 1982 as we believe that EB should only be triggered on during periods of catastrophic unemployment which is over and above normal economic fluctuations. The present triggering on levels are too low and, therefore, trigger in far too frequently.

An Additional 13 weeks of Benefits for the 40th through the 52nd Week of Unemployment

We believe that the current State-Federal system is adequate and should not be increased. However, if the Congress feels that an additional program is needed for those unemployed beyond 39 weeks, then such a program should be funded though General Revenue Financing.

STATEMENT OF PETER LOEB, EXECUTIVE DIRECTOR, DISABILITY ADVOCATES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON PUBLIC ASSISTANCE OF THE HOUSE WAYS AND MEANS COMMITTEE, DISABILITY ADVOCATES APPRECIATES THIS OPPORTUNITY TO PRESENT TESTIMONY ON PENDING LEGISLATION AND TO COMMENT ON THE FY 83 BUDGET.

DISABILITY ADVOCATES MONITORS LEGISLATION OF PRIME IMPORTANCE TO PERSONS WITH DISABILITIES THROUGHOUT OUR NATION. WE WORK ON A NON-PARTISAN BASIS AND ARE GRATEFUL FOR THE SUPPORT WE HAVE RECEIVED FROM MEMBERS OF THE HOUSE WAYS AND MEANS COMMITTEE ON ISSUES CRUCIAL TO THE WELL-BEING OF OUR PEOPLE. WE HAVE LENT OUR SUPPORT WHEN POSSIBLE AND LOOK FORWARD TO CONTINUED COOPERATION.

MY NAME IS PETER LOEB AND I AM EXECUTIVE DIRECTOR OF DISABILITY ADVOCATES.

PERSPECTIVES

BEFORE PRESENTING COMMENT ON SPECIFIC LEGISLATIVE PROPOSALS, WE SHOULD LIKE TO PUT THESE MEASURES IN PROPER PERSPECTIVE. IT SIMPLY IS NOT TRUE THAT PERSONS WITH DISABILITIES, AND SPECIFICALLY THOSE ON SUPPLEMENTARY SECURITY INCOME WHO ARE DISABLED, HAVE NOT SACRIFIED. PERSONS WITH DISABILITIES IN THIS NATION HAVE SUFFERED GREAT TRAGEDIES AND MANY HAVE GIVEN THEIR LIVES IN A PATTERN OF INCREASING SUICIDES.

ONE MEMBER OF THE SENATE RECENTLY TESTIFIED BEFORE ANOTHER SUBCOMMITTEE OF WAYS AND MEANS AS FOLLOWS:

> "... I WOULD LIKE TO THANK ALL OF YOU FOR PROVIDING ME WITH THE OPPORTUNITY TO TESTIFY ...ON ONE OF THE MOST UNPLEASANT AND DISTRESSING ISSUES BEFORE CONGRESS TODAY. I AM REFERRING TO THE MASSIVE ASSAULT THE FEDERAL GOVERNMENT HAS UNDERTAKEN AGAINST OUR DISABLED CITIZENS..."
>
> CONGRESSIONAL RECORD, APRIL 1,1982
> S 3328-3329
>
> FULL TESTIMONY INCLUDED IN OUR TESTIMONY.

WE COME BEFORE THIS SUBCOMMITTEE, BEFORE MEMBERS OF THE WAYS AND MEANS COMMITTEE AND BEFORE THE CONGRESS OF THE UNITED STATES AT A TIME WHEN OUR PEOPLE ARE DYING DUE TO CHANGES IN ELIGIBILITY FORMULAS, TERMINATIONS ON A MASSIVE SCALE--- SOME 35,000 PER MONTH CURRENTLY.

THERE IS NO NEED FOR TRAGEDY OF THIS ENORMITY TO EXIST IN OUR NATION. WE ARE ALL INTENSELY DEDICATED TO THE PRESERVATION OF LIFE.

WE HOPE THAT THIS SUBCOMMITTEE, THIS FULL COMMITTEE AND THIS CONGRESS TAKE NO ACTIONS WHICH WOULD PERPETUATE OR CONTINUE THESE CIRCUMSTANCES.

FROM OUR POINT OF VIEW, IT MAKES NO DIFFERENCE IF A BENEFICIARY IS FIRST CLASSIFIED AS "NOT PERMANENTLY DISABLED" OR "INELIGIBLE". WITH SUCH A CATEGORY ONE CAN SUBSEQUENTLY MAINTAIN THAT ALL PERMANENTLY AND TOTALLY DISABLED INDIVIDUALS ARE INDEED RECEIVING ASSISTANCE THEY REQUIRE.

TO ENGAGE IN THIS CRUEL SHARADE OUGHT NOT TO BE PERMITTED BY ANY MEMBER OF CONGRESS OF EITHER PARTY. IT IS IN THIS SPIRIT, THAT DISABILITY ADVOCATES URGES MEMBERS OF BOTH PARTIES AND ALL FACTIONS TO JOIN TOGETHER IN MAINTAINING THE SUPPLEMENTARY SECURITY INCOME PROGRAM AS AN ENTITLEMENT

UPON WHICH THE SURVIVAL OF MANY THOUSANDS DEPENDS.

IN FORMER DAYS, THE WELFARE OF THE DISADVANTAGED WAS TOTALLY DEPENDENT ON THE LOCAL COMMUNITY. WHEN THINGS WENT RELATIVELY WELL THE POOR AND DISABLED COULD EXPECT NOURISHMENT. GOOD TIMES AND BAD TIMES INFLUENCED THE AUCTIONING OFF OF PERSONS IN NEED.

WE HOPE WE SHALL NEVER RETURN TO THESE EARLIER TIMES WHEN EVERYTHING WAS "BETTER" AND "SIMPLER." IT WAS FOR SOME. A CLOSER READING OF HISTORY FROM THE POINT OF VIEW OF DISABLED PERSONS IN THIS NATION DOES NOT BEAR OUT THIS ANALOGY. BEFORE ASYLUMS WHICH LUMPED TOGETHER CRIMINALS, THE RETARDED AND PERSONS WITH EPILEPSY, PERSONS WITH DISABILITIES WERE SIMPLY ELIMINATED FROM THE COMMUNITY OF THE LIVING.

THE ADMINISTRATION'S FY 83 BUDGET

THE PROPOSALS FOR SUPPLEMENTAL SECURITY INCOME BY THE ADMINISTRATION WOULD BE DEVASTATING IN THIS NATION. WE BASE OUR CONCLUSIONS NOT ON PARTISANSHIP BUT ON THE ESTIMATES OF THE OFFICE OF MANAGEMENT AND BUDGET ITSELF.

ACCORDING TO THE ADMINISTRATION PROPOSALS, BECAUSE OF A SERIES OF ELIGIBILITY CHANGES AND OTHER RESTRICTIONS AN ADDITIONAL 115,000 INDIVIDUALS WOULD BE ELIMINATED FROM THE SSI ROLLS AS "NOT PERMANENTLY DISABLED" (SEE "MAJOR THEMES",PP. 61-62).

WE VIGOROUSLY URGE THE SUBCOMMITTEE ON PUBLIC ASSISTANCE TO REJECT SUCH PROPOSALS OR SIMILAR PROPOSALS OFFERED IN SUBCOMMITTEE OR ON THE FLOOR OF THE HOUSE. WE HOPE THIS IS DONE ON A BI-PARTISAN BASIS.

WE HOPE THAT THE SUBCOMMITTEE AND FULL COMMITTEE AS WELL AS THE CONGRESS KEEPS IN MIND SITUATIONS SUCH AS THOSE OF HAROLD HOLTZ AND HIS FAMILY OF COUNCIL BLUFFS, IOWA. MR. HOLTZ WAS DECLARED "INELIGIBLE" AFTER A YEAR OF APPEALING A DENIAL OF BENEFITS. HE TOOK HIS OWN LIFE AT 10:23 ON DECEMBER 4, 1981. MR. HOLTZ SUFFERED FROM HEART PROBLEMS, HIGH BLOOD PRESSURE AND VISION PROBLEMS.

IT WOULD BE CONVENIENT TO BELIEVE THAT THIS WAS SIMPLY AN ISOLATED INCIDENT.

IT IS NOT. AS MANY OF YOU ALREADY KNOW THERE ARE WELL DOCUMENTED SUICIDES ALL ACROSS THE NATION. WE SUGGEST THAT MEMBERS OF THE SUBCOMMITTEE READ CAREFULLY THE TESTIMONY OF HOWARD METZENBAUM ALSO INCLUDED HERE (FEBRUARY 9, 1981, S 651-652).

TO TERMINATE FURTHER THE NUMBER OF PERSONS ON SSI BY 115,000 PERSONS SEEMS INCREDULOUS AT THIS TIME. ANY SIMILAR OR "SCALED-DOWN" SET OF PROPOSALS (SAY TO TERMINATE HALF AS MANY, PERHAPS) ALSO FAILS TO RECOGNIZE THE REALITIES THROUGHOUT THE NATION.

WE LOOK TO MEMBER OF BOTH PARTIES ON THIS SUBCOMMITTEE TO REJECT THE FY 83 PROPOSALS.

WE KNOW THAT MEMBERS OF THIS SUBCOMMITTEE ARE DEEPLY CONCERNED WITH ECONOMIC FACTORS. THE AMERICAN PEOPLE ARE ALSO CONCERNED. IT IS OUR BELIEF THAT THE AMERICAN PEOPLE WOULD NOT CHOOSE TO DENY BENEFITS TO PERSONS SUCH AS HAROLD HOLTZ IN IOWA. FROM AN ECONOMIC POINT OF VIEW, NO SO CALLED "SAVINGS" WERE REALIZED BY THE DEATH OF MR. HOLTZ WHOSE FOUR CHILDREN AND SURVIVING WIFE HOPEFULLY RECEIVED BENEFITS AS SURVIVORS THAT WERE DENIED MR. HOLTZ.

SHOULD THE RESULT BE CONSIDERED A "SAVINGS" THEN THE CRUEL SHARADE AND A LETHAL NUMBERS GAME HAVE REPLACED WISE PUBLIC POLICY. WE APPEAL TO THIS SUBCOMMITTEE AND TO THIS CONGRESS.

PENDING LEGISLATION

H.R. 5226

H.R. 5226 INTRODUCED BY MR. GRADISON AFFECTS ELIGIBILITY FOR MEDICAID AND THE HEALTH-CARE INDUSTRY AS A WHOLE.

IN TESTIMONY BEFORE THE HOUSE BUDGET COMMITTEE, THE HONORABLE HENRY WAXMAN, CHAIRMAN OF THE HEALTH SUBCOMMITTEE OF THE ENRGY AND COMMERCE COMMITTEE STATED AS FOLLOWED:

> "AS YOU KNOW, I AM FAMILIAR WITH THE DIFFICULTIES IN DESIGNING AND IMPLEMENTING LONG TERM REFORMS IN THE HEALTH CARE SYSTEM. HAVING ON SEVERAL OCCASIONS ATTEMPTED TO LEGISLATE SUCH REFORMS, AND HAVING ALSO PARTICIPATED IN THE BUDGET RECONCILIATION EXERCISE FOR THE PAST TWO YEARS, I AM SURE ABOUT ONE THING. THE RECONCILIATION PROCESS IS INCOMPATIBLE WITH THE LEGISLATION OF LONG-TERM, FUNDAMENTAL REFORMS. THE PROCESS IS TOO HASTY, TOO CLOSED, AND TOO INSISTENT ON IMMEDIATE, QUANTIFIABLE SAVINGS TO

PERMIT THE DEVLOPMENT OF SOUND LONG-TERM CHANGES." STATEMENT BEFORE THE HOUSE BUDGET COMMITTEE, FEBRUARY 25,1982 P.7

H.R. 5226 IS NOT A PART OF THE RECONCILIATION PROCESS AND MEMBERS OF THE SUBCOMMITTEE MAY QUESTION ANY REFERENCE TO THE RECONCILIATION PROCESS WHATSOEVER.

WE FEEL THE STATEMENT INDICATES THE NEED FOR CARE AND THE DIFFICULTIES OF THE DEVELOPMENT OF MEANINGFUL CHANGES WITHIN THE HEALTH CARE INDUSTRY. AS CONCERNS THE EFFECTS OF SUCH A MEASURE UPON MEDICAID BENEFICIARIES, UPON ELIGIBILITY FOR MEDICAID BENEFICIARIES WE MUST AT PRESENT OPPOSE THE PENDING LEGISLATION.

WE BELIEVE THAT ELIGIBILITY FOR MEDICAID MUST BE MAINTAINED AS A RESPONSIBILITY OF THE FEDERAL GOVERNMENT. WE SHOULD OPPOSE ANY ASSIST TO PRIVATE HEALTH INSURANCE COMPANIES WHICH MAY DENY BENEFITS TO WHICH AMERICANS CURRENTLY HAVE RIGHTS UNDER AN ENTITLEMENT PROGRAM.

FURTHERMORE, THE SOLUTIONS SEEM TO REPRESENT A KIND OF QUICK FIX. WE HOPE MEMBERS OF WAY AND MEANS RECOGNIZE THAT THIS QUICK FIX SOLUTION DOES NOT EXIST.

WE STRONGLY SUGGEST THAT IT MAY NOT BE APPROPRIATE FOR THIS SUBCOMMITTEE OR THIS COMMITTEE TO REFORM THE HEALTH CARE INDUSTRY AT THIS TIME. NEITHER IS IT WISE TO APPROVE MEASURES WHICH PRECLUDE MEANINGFUL EFFORTS BY A FUTURE SESSION OF CONGRESS.

H.R. 5871

DISABILITY ADVOCATES VIGOROUSLY SUPPORTS H.R. 5871 WHICH WOULD ELIMINATE CERTAIN TECHNICAL FUNDING PROBLEMS AFFECTING NUMEROUS STATES. BY PASSING THIS MEASURE YOU WILL REASSURE STATES THAT PROGRAMS FOR AID TO FAMILIES WITH DEPENDENT CHILDREN, MEDICAID, AND TITLE XX PROGRAMS WILL NOT BE SUBJECTED TO SO CALLED "DRAW-DOWNS".

H.R. 5509

DISABILITY ADVOCATES SUPPORTS H.R. 5509 REGARDING OVERPAYMENTS OF SSI BENEFITS. WE SUGGEST AN AMMENDMENT THERETO.

THIS MEASURE ADDRESSES THE HARASSMENT THAT MANY BENEFICIARIES HAVE RECENTLY BEEN SUBJECTED TO REGARDING OVERPAYMENTS. THE PROPOSED BILL DOES SO IN A FAIR AND EVEN HANDED MANNER AND WE ARE PROUD TO BE ASSOCIATED WITH IT.

AMMENDMENT TO H.R. 5509

RECENTLY SSA PROPOSED THE USE OF THE PRIVACY ACT IN A "ROUTINE" MANNER TO MAKE FILES OF SSI BENEFICIARIES AVAILABLE TO PRIVATE COLLECTION AGENCIES. MANY MEMBERS OF CONGRESS AND IN PARTICULAR OF THE WAYS AND MEANS COMMITTEE OBJECTED AND COMMISSIONER JOHN SVAHN WITHDREW THE REGULATIONS.

WE WISH TO REMIND MEMBERS OF THE WAYS AND MEANS COMMITTEE THAT FUTURE REGULATIONS ARE EXPECTED IN THIS AREA.

NO BENEFICIARY OF SSI CAN EVER REST UNTIL LANGUAGE IS INTRODUCED INTO AN APPROPRIATE LEGISLATIVE VEHICLE WHICH:

- PROHIBITS SHARING OF CONFIDENTIAL FILES OF SSI WITH PRIVATE AGENCIES
- PROHIBITS THE UTILIZATION OF PRIVATE COLLECTION AGENCIES TO HARASS THE POOR AND DISABLED AND DISADVANTAGED AT A PROFIT TO BE PAID BY THE TAXPAYER.

IT IS OUR FEELING THAT H.R. 5509 PROVIDES THE APPROPRIATE LEGISLATEVE VEHICLE AND URGE THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AS WELL AS THE FULL COMMITTEE AND THE HOUSE TO ACT WITH DISPATCH. FOR THE CONVENIENCE OF MEMBERS OF THE SUBCOMMITTEE AND FULL COMMITTEE WE INCLUDE MATERIALS FROM OUR FILES.

WE WISH TO EXPRESS OUR THANKS TO THE SUBCOMMITTEE FOR PERMITTING US TO PRESENT TESTIMONY ON THE FY 83 BUDGET PROPOSALS AND ON PENDING LEGISLATION AT THIS CRITICAL TIME FOR PERSONS WITH DISABILITIES IN OUR NATION.

THANK YOU.

THE DISABILITY INSURANCE PROGRAM

● Mr. MOYNIHAN. Mr. President, in 1980, after the General Accounting Office investigated problems in the social security disability insurance—DI—program, Congress amended the Social Security Act to insure that only genuinely disabled persons receive DI benefits. The Disability Insurance Amendments of 1980 require the Social Security Administration to re-examine everyone now receiving DI benefits. Those found no longer disabled are to be removed from the benefit rolls.

These mandatory reviews, known as continuing disability investigations, began in March 1981. Evidence provided by the Social Security Administration itself indicates that a very great number of disabled persons are being removed from the rolls, along with those who no longer are infirm. In 1981, the State agencies that carry out DI reviews examined 351,000 cases. According to SSA, benefits were terminated in 45 percent of these cases. Persons denied benefits may appeal their case to an administrative law judge. Benefits were reinstated in 47 percent of the appeals.

That eligibility regulations are to be maintained scrupulously should be an elementary principle of government, but the evidence provided by SSA indicates that there are serious problems with the continuing disability investigations. As a result, on February 11, I joined with Senator METZENBAUM to introduce S. 2086, a bill to require SSA and the State agencies that carry out case reviews to adopt some procedural safeguards to protect those entitled to DI benefits. We have called upon the Senate Finance Committee to hold hearings on the problem, and I am confident those hearings will soon be held.

Hearings have already been held by the House Committee on Ways and Means Subcommittee on Social Security. At that time, my distinguished colleague, Senator, RIEGLE, presented incisive testimony on the problem of continuing disability investigations, putting forth lucidly and thoroughly the problems disability insurance beneficiaries face. I commend it to the Senate, and ask that it be printed in the RECORD.

The testimony referred to is as follows:

TESTIMONY OF SENATOR DONALD W. RIEGLE, JR. ON H.R. 3700—THE DISABILITY AMENDMENTS OF 1982

Mr. Chairman and Members of the Subcommittee, I would like to thank all of you for providing me with the opportunity to testify here today on one of the most unpleasant and distressing issues before Congress today. I am referring to the massive assault the Federal Government has undertaken against our nation's disabled citizens. Some may consider these harsh words to be an exaggeration of the problem before us. However, I think a careful and detailed examination of the matter will substantiate my characterization of the current administration of Continuing Disability Investigations—CDI's—within the Social Security Disability Insurance Program.

I would like to congratulate you, Mr. Chairman, and you, Mr. Archer, for taking the leadership in fashioning a comprehensive bill designed to confront this most difficult problem. Your bill goes a long way toward dealing with many of the problems in current law that are resulting in extreme and often unnecessary hardship for thousands of disabled social security beneficiaries. I have some suggestions with regard to specific sections in H.R. 3700 which I think will strengthen the objectives of the legislation to protect the rights of beneficiaries while assuring that only eligible individuals are in receipt of benefits. However, I'd like to begin by briefly characterizing the problems with the administration of CDI's today, as I see them as a United States Senator and as a representative of the citizens of Michigan.

I think Congress acted reasonably when it required in the Social Security Disability Amendments of 1980 that all non-permanent disability cases be reviewed at least every three years and all permanent cases every seven years. No one wanted to see individuals, who had medically recovered or who had returned to substantial employment, continue to receive benefits in violation of Federal law. The rapid expansion of the Social Security Disability Insurance program during the nineteen seventies together with projected shortfalls in the Disability Insurance Trust Fund, made the tightening, of what was previously a rather lax administration, necessary if we were to assure that there would be sufficient funds available for legitimate beneficiaries.

However, the implementation of this provision in the 1980 Amendments, which the Reagan Administration voluntarily launched nine months earlier than required by law, has resulted in severe hardships for thousands of social security disability beneficiaries who are forced to go without benefits for many months, and who must demonstrate at several different levels within the appeals process, that their disabilities continue and that they remain eligible for social security disability benefits. This would not be so troublesome if the majority of individuals who were forced to go through this process were individuals who were no longer entitled to benefits. However, this is not the case. Almost two-thirds of the terminations of current beneficiaries by the Administration since their voluntary implementation of the review requirements of the 1980 Amendments, were reinstated after appeal. The most recent data shows that 49 percent of those individuals who are thrown off of the disability rolls, who are forced to find alternative funds for basic sustenance, perhaps by selling their homes or essential possessions they have earned after years in the work force, are later proven eligible for disability benefits. Even though these individuals will receive retroactive payments covering the period when their benefits were terminated, their previous financial status is often irretrievable. In addition, many of these individuals will lose up to 25 percent of their wrongfully terminated benefits for attorney's fees.

Clearly these figures are a serious indictment of the system and strong evidence that we need major revisions in the CDI procedures. Without swift action, the situation promises to get worse. The individuals who were initially chosen for reevaluation in the CDI program were selected from a group of individuals most likely to no longer be disabled for the purposes of benefits. And it is out of this group that only one-third who are initially terminated are permanently removed from the rolls. The poor correlation between the initial terminations and those terminations at the conclusion of the appeals process, promises to increase as less "error prone" cases are reviewed. It seems to me totally unacceptable to force the 2.9 million Americans who are currently receiving social security disability benefits to be subject to a review process that results in the wrongful termination of thousands of cases.

On a more personal level, I would like to take a moment to share with you some of the specific problems we are experiencing in Michigan as a result of the current administration of CDI's. In my seven regional offices in Michigan, we have seen our social security disability case load increase by as much as 95 percent since March of last year. In addition to individuals who have already received termination notices, my regional offices have been receiving regular phone calls from current recipients who are worried about their cases being reviewed and who are concerned about their prospects for being terminated.

Beneficiaries are not the only individuals contacting my offices expressing concern about the current CDI program. I have also been contacted by disability examiners from the Michigan State Disability Determination Office. These are the individuals at the front line of the disability review program. After holding meetings in my office with examiners, I found that the examiners feel that many of the terminations are wrong, but the new guidelines tie their hands so much that they are unable to do anything about it. They spoke of many instances when they have tried to "sneak" someone

through who they knew as disabled as defined by law, only to have it reviewed at the Social Security headquarters in Baltimore and sent back to them for re-determination. The examiners explained that the new Program Operation Manual (POMS), the Federally issued manual which governs the determination of disability by the state agencies, makes significant changes in the previous criteria utilized for determining desability. This is especially evident in cases involving mental impairments, where vocational criteria are no longer considered and an IQ must be under 60. These rigid determinations have bizarre results, where individuals committed to the Michigan State Psychiatric Hospital are considered no longer disabled and have had their benefits terminated.

Heart disease is another area resulting in a high percentage of defials as a result of the new POMS. The manual is very specific about the degree of occlusion which must have occurred and require that treadmill and EKG evidence be presented. When a patient is unable to take a treadmill-EKG as a result of his or her doctor's advice, they are terminated because of lack of evidence to prove the claim. The Social Security Administration will not accept any tests or other evidence as an alternative to the treadmill.

This harsh and over-zealous attack on our nation's disabled citizens has resulted in unnecessary hardship and suffering. On Thursday November 5, 1981, a Lansing man who had been receiving social security disability benefits since 1967 as a result of a severe back unjury, stood outside of the local Social Security office and killed himself with a shotgun shortly after discovering his disability benefits had been terminated. Numerous other suicides have been reported around the country as a result of CDI's. Another case being monitored by one of my regional offices in Michigan, concerns a 28 year old man who is terminally ill, suffering from leukemia, pioscythemia vera (a blood disease), chronic arthritis, hypertension, severe bone pain from both cancer and hepatitis, along with a severe personality disorder associated with a history of both drug and alcohol abuse. The Social Security administration says the extreme debilitating bone pain, associated with cancer, is no longer a factor for consideration. This man's problems are so severe, and he's so depressed, that the doctor will not allow the family to tell him his social security disability benefits have been terminated.

These are just a couple examples of a whole litany of cases that one could cite from my state and from every state in the Nation where the aggravation created as a result of the CDI reviews worsens heart conditions, hinders treatment for emotional and mental conditions, and in general, turns an already marginal existance into a nightmare.

I have some suggestions with regard to specific sections of H.R. 3700 which I would like, if there's no objection to have inserted into the hearing record. However, I would like to commend the Subcommittee for moving forward with this needed legislation and treating this matter with the highest priority. As is evident from my earlier comments, I see this as a major problem within the Social Security Disability program, and I'm pleased that something is being done about it.

I did want to briefly mention that I particularly support the provisions of H.R. 3700 that extend the issuance of benefits during the appeals process. As I have already indicated, the provision in current law regarding the termination of benefits, is perhaps the greatest source of hardship for beneficiaries. In addition, I strongly support the provisions of the bill that extend vocational rehabilitation services to individuals who were terminated from the disability rolls as a result of a CDI review. This is an innovative approach for providing assistance to individuals who, while no longer disabled for purposes of receiving social security benefits, are nevertheless often in need of vocational and rehabilitation counseling and services.

In closing, I would like to reiterate my contention that the current administration of the Continuing Disability Investigations is resulting in cruel and unnecessary hardships for thousands of disabled Americans. We must seek ways to get Federal spending under control and to eliminate waste and fraud in government programs and activities. However, we must not approach that objective in a manner which results in the needless suffering of innocent bystanders. I believe that H.R. 3700 is an important first step in the right direction and I commend the Subcommittee for taking the leadership in this area and for providing me with the opportunity to share my thoughts with you today.

Thank you.

SPECIFIC COMMENTS ON H.R. 3700 BY SENATOR DONALD W. RIEGLE, JR.

Let me briefly discuss the specific provisions in H.R. 3700. The sections of H.R. 3700 that strengthen the reconsideration process, establish uniformity at the various levels of adjudication, and create a Social Security Court, all speak to the need to fine tune the review process with the objective of trying to reduce the number of reversals on appeal. My concerns about all of these provisions is that such fine tuning is achieved by significantly tightening and narrowing the definition of disability. The way in which this bill attempts to attack the problem of wrongful termination is—in essence—to redefine the definition of disability, eliminating many currently eligible individuals. I do not believe that Congress should narrow the already strict definition of disability in the Social Security Act and thereby disqualify individuals with the types of severe conditions I mentioned earlier in my testimony.

I strongly urge the Subcommittee to consider achieving uniformity in the decision-making process by requiring the Social Security Regulations and the Program Operations Manual (POMS) to be redesigned so as to be in conformity with the requirements in the Social Security Act and the judicial precedents established in Federal Court. As the bill is currently drafted, uniformity would be achieved by nullifying judicial precedents and by requiring the adoption of the new Regulations and strict POMS standards at all levels of adjudication. By adopting the Federal Court standards at the first level of re-examination, thousands of disabled beneficiaries will be spared the unnecesary anguish of wrongful termination.

I strongly support the provisions in the bill that extend the option of the recipient to continue to receive benefits after initial notification of termination until a face to face evidentiary hearing is held. This would establish uniformity with the current procedures in the SSI program and would lessen much of the hardship experienced by many beneficiaries who are currently thrown off the rolls in a number of weeks. A similar provision is contained in S. 1944, a bill introduced by Senator Levin, on December 11, 1981, of which I am a cosponsor. I am concerned, however, that the six month limit in H.R. 3700 for such continued benefits may be an insufficient amount of time in some parts of the country where there is a significant backlog of appeals.

I am also concerned about the provision of the bill that would close the record after reconsideration rather than after a hearing in front of an Administrative Law Judge (ALJ) which is the practice under current law. Many beneficiaries do not seek counsel until the ALJ hearing and therefore have inadequately developed records at the reconsideration level. Until we are assured that the reconsideration process will not continue to be proforma reaffirmation of the initial determination, a fair and complete appeals proceedings can not be assured if the record is closed after the reconsideration level. I recommend the Subcommittee postpone the enactment of this provision awaiting evidence that the reconsideration process has become a meaningful level of review.

In addition, I am strongly opposed to the provision which alters the recency of work test. In a state like Michigan, where employment is a significant problem, many newly disabled individuals out of the work force for several years, due to their inability to find employment during difficult economic times, will be denied benefits. The objective of the Social Security Disability Insurance program to provide funds for lost wages due to a severe disabling condition, would still apply to individuals out of the work force for a few years due to their inability to secure employment.

I would also like to briefly discuss those sections of the bill that deal with vocational rehabilitation. I strongly support the concept that those individuals terminated from the Disability rolls as a result of CDI's are in particular need of vocational rehabilitation services and counseling. Many of these individuals whose benefits are terminated as a result of CDI's, have been on the disability rolls for many years and are almost immediately thrown into a position where they must either seek employment or sell off most of their possesions in order to qualify for welfare. The additional funds made available under this bill to provide these individuals with vocational rehabilitation services will help assure that no one is forced to seek welfare for lack of vocational and rehabilitation counseling. I would however strongly urge the Subcommittee to consider the proposed program outlined in S. 1987 for providing vocational rehabilitation funds to the states for SSDI and SSI beneficiaries and adapt this program to meet the needs of CDI's. This bill, of which I am a cosponsor, was introduced by Senator Cranston on December 16, 1981, and provides the states with adequate funds for the specific purpose of rehabilitating Social Security Act beneficiaries without additional strain to the Disability Insurance Trust Fund and could be easily modified so as to address the specific problems confronting newly terminated CDI's.●

Supplemental Security Income

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	7,227	7,878	9,177*	8,270	9,330	9,826	10,296
Outlays	7,191	8,000	9,188*	8,268	9,326	9,823	10,292
REAGAN BUDGET							
Budget Authority	7,227	7,777	8,891*	7,781	8,622	8,912	9,196
Outlays	7,191	7,900	8,903*	7,779	8,618	8,909	9,192
PROPOSED SAVINGS							
Budget Authority	—	101	286	489	708	914	1,100
Outlays	—	100	286	489	708	914	1,100

*Since the first day of the first month of fiscal 1984 falls on a weekend, the first benefit check for 1984 is paid on the last weekday of 1983 thus making 1983 a 13 rather than 12 benefit month year.

Program Description

Supplemental Security Income (SSI) provides cash assistance to low-income individuals who are aged, blind or disabled. The current (1982) maximum monthly payments and income guarantees are $264.70 for an eligible individual and $397 for an eligible couple. These amounts are indexed annually for increases in the cost-of-living. Approximately 1.5 million aged persons and 2.1 million blind or disabled persons receive Federal SSI benefits. Another 500,000 persons receive State SSI supplementation payments only. Benefit checks are usually issued the first of each month.

Proposed Change

The Administration proposes to:

- Prorate the first month's SSI benefit from the date of application or date of eligibilty (in the case of aged persons).
- Restrict the definition of permanent disability to a prognosis of at least 24 months of disability.
- Ensure that the definition of disability is based on a preponderance of medical rather than other factors.
- For new beneficiaries no longer disregard the first $20 of income in setting benefit levels.
- Recover overpayments to individuals from available Social Security benefits.
- Continue to phase out transitional hold harmless payments.

Rationale

- Under current law, all new recipients have been paid a full month's benefit regardless of the day of the month on which they file or, in the case of aged applicants, the day they become eligible for assistance (i.e., turn age 65). Consequently, most individuals who apply for SSI receive benefits for periods of time before they applied or were eligible. Prorating the first month's benefits based upon date of application (or eligibility) would base an applicant's benefits more fairly on the appropriate period.

- Under current law, the monthly guarantee and actual payments are rounded to the next higher 10 cents in the computation process. Over time, however this rounding procedure has had a compounding effect that results in slightly higher benefit payments. Rounding the SSI guarantee and payment amounts to the next lower dollar would eliminate the modest overcompensation that results from the current higher rounding procedure.

- The SSI definition of permanent disability includes a requirement that an individual's impairment must be expected to result in death or continue for not less than 12 months. Restricting permanent disability to nonemployable individuals with a prognosis of at least 24 months of disability would assure that temporary disabling impairments would not be a basis to qualify for benefits. The 24 month duration requirement is more consistent with the concept of *permanent* disability.

- Individuals are considered disabled under SSI if their medically determined impairment is of such severity that they are not only unable to do their previous work, but cannot, because of education or work experience, engage in substantial gainful employment. Ensuring the definition of disability is based on a preponderance of medical factors would eliminate a problem under present law in utilizing vocational and other subjective nonmedical factors which make consistent disability determination decisions difficult. Relying on medical factors would produce more objective and consistent determinations and fewer appeals.

- Under current law, $20 per month of an individual's income is disregarded in determining SSI eligibility and amount of benefits. Since the disregarded amount is fixed, it is of decreasing significance in real dollars. It also can result in differential treatment of recipients. Some people in similar circumstances get the maximum SSI payment of $264 and others having combined SSI and other income get $20 more a month than the maximum SSI payment. The proposed change would apply a uniform standard to newly eligible persons.

- The Social Security Administration has been unable to recover more than forty percent of SSI overpayments because many of the overpaid individuals are no longer in the SSI program. Half of the former beneficiaries receive Social Security retirement and disability benefits. The proposed change would allow Social Security Administration to recover SSI overpayments from these no longer needy individuals.

Effects of Proposed Change

Rounding benefit amounts and payment standards would have a minimal effect on individual benefits. Beneficiaries would have their monthly benefits reduced by an average of 50 cents.

Applying an established medical definition of disability would lower SSA's administrative costs and make disability determinations more consistent and objective.

This proposal would exclude payments to an estimated 115,000 individuals in 1983 who are not permanently disabled.

Tues., Feb. 9, 1982 ■ DES MOINES REGISTER

Widow seeks answers to husband's death

By WILLIAM PETROSKI
Register Staff Writer

COUNCIL BLUFFS, IA. — The widow of Harold R. "Sonny" Holtz — who killed himself two months ago after he was denied disability benefits — has a message for President Reagan as he visits Iowa today:

HAROLD HOLTZ

"He should really have a better understanding of people who need help," says Deloris Holtz. "There are people who are getting things who don't deserve them. But there are people who deserve it and the door is getting shut on their face."

Sonny Holtz, a 45-year-old former truck driver and the father of four children, ages 10 to 19, died at 10:23 p.m. on Dec. 4 of a self-inflicted, .22-caliber gunshot wound in the right temple. His suicide came after nearly a year of attempts to obtain Social Security benefits. He was denied benefits even though he suffered from heart problems, high blood pressure, diabetes, and vision problems related to his diabetes.

Deloris Holtz says her husband killed himself because of his frustration with the Social Security Administration. Her story was confirmed by an aide to U.S. Representative Tom Harkin (Dem., Ia.) and a worker for the Legal Services Corp. of Iowa who handled Holtz's case.

As a result of Holtz's death, his family has begun receiving Social Security survivors' benefits. However, Holtz's original request for disability benefits still is being appealed to a Social Security council in Baltimore, Md.

Deloris Holtz, 41, says she is certain her husband committed suicide so that his family could receive 'survivors' benefits. "Nobody would help him, so he figured at least someone would help us. He doesn't

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Widow says 'tremendous pain' kept Holtz awake nights

WIDOW

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have to cry for help no more," she said.

Deloris Holtz, who works for the Kitty Clover potato chip company in nearby Omaha, Neb., was interviewed Sunday afternoon in the kitchen of the Holtz family's well-kept one-story home in a blue-collar neighborhood on the south end of Council Bluffs. She agreed to talk about her family's tragedy, saying she hopes the government will begin to act with compassion toward other families who suffer similar problems.

Harold Holtz, a hefty man who wore his hair in a crew cut, dropped out of school after the eighth grade and had spent most of his working career as an over-the-road truck driver, venturing throughout the United States for 21 years without ever having an accident.

Had Many Friends

A lifelong resident of Council Bluffs, he had many friends and enjoyed visiting with people. "He never met a stranger," his wife recalled. He'd talk to people for a half hour and know their life history." Although he liked to bowl, he spent most of his free time at home with his children, his widow recalled.

His problems began when he was forced to quit his most recent job — with G & J Trucking of Harlan — after his diabetes became more severe and he was required to start taking insulin in October 1980. U.S. Department of Transportation rules would not permit him to continue interstate driving while taking insulin.

Holtz then sought unemployment benefits and was referred to the state vocational rehabilitation office in Council Bluffs. But he first was required to undergo a physical examination, which revealed the blockage of three coronary arteries.

On Jan. 21, 1981, Holtz applied for Social Security disability benefits and Supplemental Security Income, and was denied. In February 1981 he underwent a triple-bypass heart operation, which was aimed at alleviating the blockages.

"Tremendous Pain"

After the operation, doctors told Holtz he was fine, although it would be about six months before he could work again. But his wife said he was in "tremendous pain all the time."

"He couldn't sleep. He'd walk the floor at night and the doctor would say 'Well, it's anxiety because he's out of work' and blah, blah, blah . . . Pass the buck.

"They'd change his medicine and do this and that and the doctor said 'Well, Harold, you could be in some pain, but everything shows that everything is coming out all right,'" Deloris Holtz said.

She questions whether her husband's surgery was successful. She says that before it was determined that he needed heart-bypass surgery, doctors downplayed severe chest pains he had experienced. It was only after he had undergone a heart catheterization test that doctors agreed he had heart disease, she said.

In April, Holtz filed an appeal of the Social Security Administration's denial of his request for benefits. On Sept. 9, he appeared before an administrative law judge in Omaha, but his appeal was turned down.

The judge ruled that Holtz's ailments did not constitute a disability "as defined under the Social Security Act" and were "not severe enough" to prevent him from holding some kind of job.

Transferable Skills

The judge agreed that Holtz suffered from heart disease, diabetes, eye problems and anxiety. But he wrote that Holtz could perform sedentary work and that he had job skills that were transferable. The record did not state what job skills involved in truck driving could be used in other forms of work.

And although Holtz still suffered from what he described as severe pain, the judge said the pain was "not disabling in scope."

In questioning the administrative law judge's decision, a legal assistant for the Legal Services Corp. of Iowa has written in support of Holtz: "While there is evidence in the record that [Holtz] could not do his job, the administrative law judge presented no vocational expert or other qualified person who testified that he could, given his age, education and severity of disability, do any other job."

Despite his extreme pain, Holtz studied newspaper help-wanted columns each day and sought help from Job Service of Iowa, Deloris Holtz said. But she said he repeatedly was informed by employers that they

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could not risk hiring him because of his many health problems.

In November, after he changed doctors, Holtz was hospitalized again for a week. He was discharged so that he could have Thanksgiving dinner with his family.

Increasingly Depressed

Meanwhile, Holtz had become increasingly depressed and was taking medication for his anxiety. On Dec. 4, Holtz could stand the frustration no longer, and he ended his life. His death was ruled a suicide by the Pottawattamie County coroner's office.

Doris Davis, a paralegal who had worked on Holtz's case for Legal Services, says she definitely believes Holtz's suicide was caused by the denial of his request for Social Security disability benefits.

"He was disabled and there wasn't anything else he could do. He felt people were telling him he could work, but he had pain and he couldn't. He began to feel he was in the way because he couldn't get benefits and couldn't work."

Barry Piatt, Harkin's press secretary in Washington, said Holtz did not directly threaten to commit suicide if he were denied benefits. But both Piatt and Davis said Holtz had made offhand remarks about taking his life.

"He was involved in a lengthy process and he was so frustrated with the process that he killed himself," Piatt said.

Some Can Work

Asked to comment on the case, Price Farson, assistant director of the state Disability Determination Service, said it is possible that a person could be denied disability benefits despite having a heart ailment. Some heart patients, after an evaluation by a physician, are deemed able to do light work, he said.

"Here's the trouble with pain," Farson added. "How do you evaluate it? ... I don't know how you can determine the pain unless there is some clinical evidence, and that is very difficult to evaluate. That's one problem we have with people with back problems."

Farson also emphasized that federal law requires that all recipients of disability benefits must be "totally disabled" and unable to work for at least one year.

Matter of Principle

After Holtz's death, Harkin — who had telephoned Holtz at home twice and had intervened on his behalf with the Social Security Administration — contacted Deloris Holtz and asked her if she wanted to continue appealing her husband's denial of benefits. She agreed she still wanted to push the case as a matter of principle. If she wins the appeal she will be provided her husband's benefits retroactive

But even if she wins the appeal it will be of little solace to Deloris Holtz and her children, who must spend the rest of their lives without their husband and father.

"It's hard. It really is," Deloris Holtz said sadly. "They say pick up the pieces and go on. But it's awful darn hard..."

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4,000 Iowans face disability-aid loss in U.S. crackdown

By WILLIAM PETROSKI
Register Staff Writer

More than 4,000 Iowans are expected to have their Social Security disability benefits cut off during the next three years as part of a nationwide crackdown aimed at eliminating unqualified recipients.

Hundreds of Iowa residents already have been ruled ineligible for benefits. However, some attorneys contend that many people who are totally disabled are unjustly being dropped from the Social Security program or denied initial claims for assistance.

In one case, a 50-year-old Monroe County man who had psychiatric and medical problems suffered extreme anxiety when his benefits were terminated. He had a heart attack the day his case was appealed. The man, who had no prior history of heart problems, died 16 days later, on Dec. 18, said his lawyer, Robert Sherman of Ottumwa.

Attorneys for the Legal Services Corp. of Iowa, which serves poor people, also point to cases such as that of Mary Greiner, 42, of Richland. Greiner is often bedridden because of severe medical problems. Her benefits were cut off after a disability examiner ruled she is capable of going to work.

$333 Monthly

Twenty-seven thousand Iowans receive a total of $9 million monthly in Social Security disability benefits. The average payout per person is $333 each month.

Bill Durst, district manager of Social Security in Des Moines, said 21,600 Iowans will have their disability cases examined by Sept. 30, 1984. An estimated 20 percent to 25 percent of those people will lose their benefits, said Ken Bischof, a spokesman for the Social Security regional office in Kansas City.

In Iowa, more than 4,000 people will lose assistance if the 20 percent termination figure is maintained.

About one-third of the people dropped from the Social Security program appeal the action, and about 64 percent of those win their appeals, according to Legal Service officials.

The move to review disability claims started last April, but the brunt of the re-evaluations began in January. Bischof said cases being reviewed currently are those that will most likely result in a cutoff of benefits.

Of 1,500 Iowans whose cases have been re-examined since October, 40 percent, or more than 600 people, have been disqualified for benefits. Many cases are being appealed.

The review process was mandated by Congress in 1980, said Price Farson, assistant director of the Disability Determination Service, which operates as part of the Iowa Department of Public Instruction. Congress also has established stricter standards for individuals to qualify for disability benefits, he said.

Ineligible

A study by the federal General Accounting Office supports the congressional action. GAO investigators said the government was losing more than $2 billion annually to ineligible disability recipients.

Federal law states that all recipients must be totally disabled and

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Examiners don't consider pain

SECURITY

Continue from Page One

unable to work for at least one year. The 80 percent who have physical or mental problems that may show improvement must be re-evaluated every three years. The remaining 20 percent, such as quadriplegics and the blind, must have their cases re-examined every seven years.

In criticizing the disability determination, Legal Service attorneys point out that an extraordinarily high percentage — 64 percent — of the cutoffs are being reversed in cases that are appealed to administrative law judge.

An estimated 30 percent to 35 percent of people who are terminated from benefits file appeals, but many people don't appeal because they are discouraged or don't know better, said legal aid lawyers.

"It appears that in some instances that evidence supporting the termination [illegible]," said Danielle Conn[illegible] managing attorney of the Legal Service office in Cedar Rapids.

"Some of the decisions don't make any sense at all," said Anne Hoffmaster, a legal service worker in Fort Dodge. "Some of the people terminated have even had their conditions deteriorate since they were originally put on disability benefits."

Noting the nation's economic problems, one lawyer questioned whether an employer would hire any disabled person who had lost disability benefits, particularly when so many healthy workers are jobless.

Paper Evidence

Defending the review process, Farson of the Disability Determination Service said that his staff, which includes physicians, must base its decision solely on paper evidence such as doctors' notes and clinical evaluations. His staff rarely sees the disability claimants.

In addition, the Social Security Administration says that in cases of disability cutoffs nationally, quality control studies have determined the disability examiners are accurate in 96 percent of the cases they review.

Social Security spokesman Bischof said many cases are reversed on appeal because administrative law judges have more freedom to interpret federal disability legislation and Social Security regulations. The judges also meet individuals in person and they are permitted to consider how pain affects a claimant's performance.

In comparison, the disability examiners are not permitted to consider pain when making a determination of eligibility.

"We can see there is a difference" in decisions reached by judges and disability examiners, Bischof acknowledged. As a result, he said, Congress and the Social Security Administration are discussing an effort that would permit decisions to be based on similar guidelines.

Appeal Pending

The 60-year-old Monroe County man who died of a heart attack after his benefits were terminated was a recluse, according to Iowa Department of Social Services records. Sherman, the man's Legal Service attorney, has declined to release the man's name because his appeal is pending before an administrative law judge.

The man had once been a railroad and brick worker but suffered from mental illness and chronic alcoholism and had problems with stomach ulcers, arthritis and a bad back.

After the client was examined by a non-psychiatric doctor in Ottumwa, he was ruled ineligible for disability benefits. The man suffered extreme anxiety, Sherman said, and suffered a heart attack on Dec. 2, the day of his appeal. He died Dec. 18 of a second heart attack.

"The problem was that his impairments were mental and they sent him to a medical doctor," Sherman said. "The doctor just gave him an exam and said, 'I think he can work.'"

"In my opinion, a hearing on this case was totally unnecessary and the anxiety he had may have caused his heart attack," Sherman said.

Farson of the Disability Determination Service said it is possible that Sherman's client was examined only by a medical doctor. However, the determination of the man's mental condition could have been based on notes submitted by the man's psychiatrist, Farson said.

"We ask all doctors to refrain from telling us whether the client is disabled," Farson added. "We make all decisions on whether they are eligible or not based on the clinical findings."

Cancer

In another case, Greiner of Richland, a small town in Keokuk County, suffers from cancer in her sinus cavities, which causes severe headaches. She also has staphylococcus infections, frequently suffers pneumonia, has had four ruptured spinal discs and has intestinal problems that require her to eat only strained food.

"The last two years I have been in the hospital more than I have been out," said Greiner. "There have been weeks that I am not able to get out of my house. There are lots of days I never even get out of my pajamas."

Greiner, who has been ill for about four years, began receiving Social Security disability checks in 1980. She said she received a letter from Social Security last fall notifying her that she could resume a work schedule effective Oct. 1. However, she was hospitalized from Sept. 24 until late October.

Greiner is attempting to have her eligibility for benefits reinstated, but her assistance checks have been stopped. Meanwhile, she is trying to determine how she can live without any income.

"I've talked to the bank about getting money to help me through, and my one sister will probably help me. It's rough, but somehow I'll get through. I've done it before," she said.

Apparently, the key reason why Greiner is no longer eligible for benefits is that she is not considered "totally disabled." Persons who are considered partially disabled are not qualified for Social Security assistance.

Farson emphasized that the amendments to Social Security laws passed by Congress have made eligibility requirements more strict.

"As a consequence, it makes it more difficult to be considered totally disabled for Social Security purposes," Farson said.

By Mr. METZENBAUM, (for himself, Mr. MOYNIHAN, Mr. EAGLETON, Mr. INOUYE, and Mr. BRADLEY):

S. 2086. A bill to amend title II of the Social Security Act to provide for certain procedures to accompany reviews of continuing eligibility for disability insurance benefits; to the Committee on Finance.

CONTINUING DISABILITY INVESTIGATIONS IMPROVEMENT

● Mr. METZENBAUM. Mr. President, information has come to my attention that the Social Security Administration (SSA) is using seriously flawed procedures in its investigation of the continuing eligibility of current recipients of social security disability benefits. As a result, needed benefits are being denied to many truly disabled persons who have no alternative source of income.

Today, Senators MOYNIHAN, EAGLETON, INOUYE, BRADLEY and myself are introducing a bill to correct the procedural inequities that we have found in the present system. While I agree that our social security system can ill afford to carry persons on its rolls who are no longer disabled, we cannot allow our cost-saving initiatives to become so overzealous that we harm those very persons who are most in need of Government assistance and protection.

Starting in March 1981, SSA, at the request of the administration, has engaged in a massive, accelerated review of title II disability recipients. Nationwide, State agencies are receiving over 35,000 cases for review each month and that number is expected to double later this year. The offices are severely understaffed, the backlog of cases is enormous, and there is tremendous pressure to move these cases quickly. SSA has informed the State examiners that they will closely scrutinize cases in which a decision is made to continue benefits, but there is no review of decisions to terminate benefits. As a result of this not too subtle message to decrease the disability rolls, some egregious errors are being made.

Agency personnel have informed my staff that very often the agency does not even request a medical report from the recipient's treating physician, particularly if that person is receiving care in a clinic setting. Even where medical evidence is requested, the agency is allegedly making its decisions to cease benefits prior to waiting a reasonable length of time for receipt of such a report or without reviewing those reports received.

In addition, serious allegations have been made concerning the quality and adequacy of the medical examinations conducted by the independent medical examiners under contract with the State agency. There are too many disturbingly similar stories of hasty 5-minute interviews with indifferent doctors to believe that these are just isolated incidents. As a result of these ill-advised procedures, the State agency in Ohio is currently ceasing benefits in 47 percent of the cases it reviews while the termination rate nationwide is 45.1 percent. However, in Cleveland, the administrative law judges are reversing at least 50 percent of these initial State agency decisions when the cases finally reach them on appeal. In other States I understand that the error rate is even higher. This incredible reversal rate means that about 25 percent of the disability recipients being removed from the rolls by the State agencies are actually entitled to continued benefits.

The consequences of an erroneous decision by the State agency are severe. Despite a request for a hearing on this initial determination that a person's disability has ceased, benefits are terminated pending the hearing decision. The waiting period for such a decision can be as long as 1 year. When benefits are restored, as they are in at least 50 percent of the cases, it may be too late for those persons with no other sources of income.

My staff have been contacted by desperately ill persons who are being forced to sell their homes and resort to other serious irreversible measures while awaiting this restoration of benefits. Lives are being destroyed, literally, as a result of this process. Several recent suicides and suicide attempts have been attributed to the loss of social security disability benefits.

In one case brought to the attention of my office, Calvin J. Crick, a 55-year-old man who had been on total disability since 1975 when he suffered a massive heart attack, received a notice that his benefits were being terminated because he was no longer disabled. Despite the report of his own physician of 12 years that a series of four heart attacks had left Mr. Crick permanently disabled and unable to resume working and despite previous test results to this effect, the State agency insisted that they would need current laboratory findings. Mr. Crick agreed to undergo a heart catheterization to prove his disability despite the warning of his physician that the operation could be life threatening. Mr. Crick felt he had no choice but to take the risk because he had to support a wife and two children. When one of my staff insisted that a medical consultant at SSA in Baltimore review this case, it was found that Mr. Crick's case file already contained more than sufficient evidence to prove his disability. While Mr. Crick was saved from a life-threatening operation by the last-minute intervention of this office, how many other lives are seriously damaged because no one has intervened on their behalf?

In another Ohio case, a 59-year-old woman had been receiving disability benefits because of a heart condition and progressively deteriorating arthritis. She had worked for 27 years as a dental technician before suffering a heart attack. After several unsuccessful attempts to continue working, she finally was forced to go on disability. Last October, the State agency, ignoring the report of her treating physician, terminated her benefits based on the report of a State-paid doctor who had spoken to her for only a few minutes and who had not even conducted a physical examination of her condition. This woman's husband is 76 years old and he receives a small pension, but their income was cut in half with the loss of her disability benefits.

These and countless other similar examples have led us to the conclusion that a legislative change is necessary. My bill simply requires SSA and the State agencies to adopt fairer procedures in their review. It requires SSA to give adequate notice to recipients whose cases have been chosen for investigation in order to give them sufficient time to make doctor appointments, undergo necessary tests and examinations, and obtain medical reports. The notice will inform recipients that they should obtain a report of a recent medical examination of their disability by a provider of medical services of their choice and that such report will be used in determining their continued eligibility for benefits. It requires the State agency to request such a report and to wait 30 days after their request for receipt of the report prior to making any determination as to whether the recipient's disability has ceased.

In addition, my bill would provide for a continuation of benefits in those cases where there is a substantial difference of medical opinion as to the recipient's disabling condition between the recipient's own treating physician and the consultative physician who was chosen by SSA or the State agency. Benefits would continue pending a hearing decision by the administrative law judge. Benefits would also continue during the appeals process for those recipients who could prove substantial dependence upon such benefits. This would only partially parallel the right to continued benefits which SSI disability recipients have under current law. Finally, in cases where benefits were continued pursuant to the above requirement, no overpayment could be recovered from recipients whose income did not exceed 150 percent of the poverty line if the final appeals decision was to cease benefits.

Time is of the essence in bringing about these needed procedural changes. Congress must take action to prevent further tragedies from occurring. We must not let our search for fraud and abuse result in harm to truly disabled persons who have worked and earned these benefits which they currently receive. ●

Social Security Administration

Privacy Act of 1974; Report of New Routine Use

AGENCY: Social Security Administration (SSA), Department of Health and Human Services (HHS).

ACTION: New routine use.

SUMMARY: In accordance with the Privacy Act (5 U.S.C. 552a(e)(11)), we are issuing public notice of our intent to establish a new routine use of information that we maintain in the following Privacy Act systems of records:

1. 09-60-0045—Black Lung Payment System (BLPS), HHS/SSA/OURV;
2. 09-60-0089—Claims Folders and Post-Adjudicative Records of Applicants for and Beneficiaries of Social Security Benefits (Claims Folder), HHS/SSA/OOPP;
3. 09-60-0090—Master Beneficiary Record (MBR), HHS/SSA/OURV;
4. 09-60-0094—Recovery Accounting for Overpayments (ROAR), HHS/SSA/OURV; and
5. 09-60-0103—Supplemental Security Income Record (SSR), HHS/SSA/OURV.

The proposed routine use will enable us to use third party resources to assist in the recovery of overpayments.

We invite public comments on this proposal.

DATE: The proposed routine use will become effective as proposed, without further notice, on February 7, 1982 unless we receive comments on or before that date which would result in a contrary determination.

ADDRESS: Interested individuals may comment on this proposal by writing to the SSA Privacy Officer, Social Security Administration, 6401 Security Boulevard, Baltimore, Maryland 21235. All comments received will be available for public inspection at 3-F-1 Operations Building at the above address.

FOR FURTHER INFORMATION CONTACT: Mr. Bob Marder, Director, Debt Management Staff, Social Security Administration, Room 500 Altmeyer Building, 6401 Security Boulevard, Baltimore, Maryland 21235, telephone (301) 597-4687.

SUPPLEMENTARY INFORMATION: SSA makes monthly payments to approximately 35 million retirement, survivors and disability insurance beneficiaries and supplemental security income recipients. In administering these payments, we sometimes overpay individuals. This generally is caused by beneficiaries/recipients failure to report events which affect their entitlement to payment or the amount thereof.

When an individual is overpaid, section 204(a) of the Social Security Act gives SSA authority to adjust the overpayment against any benefits, which are still due him or her. If the individual is no longer due benefits, section 204(a) also gives us authority to require refund of the amount overpaid. On April 17, 1979, and April 17, 1981, the General Accounting Office and the Department of Justice issued joint regulations (4 CFR 102) which encourage Federal agencies to supplement Federal debt collection programs by contracting for the services of third parties to assist in collecting debts.

The use of third party resources to assist in the recovery of outstanding overpayments will represent a new direction for SSA. For the most part, we have depended on our own resources to recover overpayments. However, given the Federal Government's concern about growing losses and the regulations urging the use of private resources, we are proposing to establish a routine use which would permit us to disclose information pertaining to an overpaid individual (e.g., name, social security number, latest address, telephone number, amount of debt, debt payment history and information relating to the ability to repay) to third parties for the purpose of their assisting us in recovering overpayments. Such third parties could include, but are not limited to, credit-related services, collection agencies, and State Motor Vehicle Departments.

Initially, we will request information (e.g., current address) from third parties which will be used in our attempts to collect an individual's debt. By early 1982, we expect to award contracts to private collection agencies for the purpose of employing their assistance in the collection of debts. Their activities will include such things as billing, investigating an individual's current whereabouts and ability to refund the overpayment, and making personal contacts to collect overpayments. Third party responsibilities with respect to the Privacy Act and the HHS Privacy Act regulation and other applicable Federal statutes and regulations will be clearly stated in the contracts.

Information that we will disclose to a collection agency under contract with SSA will constitute an SSA system of records maintained by a contractor. Prior to disclosing information to a contractor, we will establish a new system of records in accordance with Privacy Act requirements (5 U.S.C. 552a).

In accordance with the above discussion, we are proposing the following statement of routine use:

> Information may be disclosed to third party contacts (including private collection agencies under contract with the Social Security Administration) for the purpose of their assisting the Social Security Administration in recovering overpayments.

The proposed routine use meets the criteria contained in the Privacy Act and our disclosure regulation (20 CFR 401).

Both permit us to disclose information without the consent of the individual to whom it pertains for purposes which are compatible with those for which SSA collected the information. Information in each of the above mentioned systems is collected for the purpose of administering programs for which SSA is responsible. The BLPS, Claims Folder, MBR and SSR systems may contain information which indicates that an individual has been overpaid; the ROAR system contains information which is used to maintain control of overpayments and SSA's efforts to collect them. Disclosure from these systems under the proposed routine use would enhance our ability to recover monies owed SSA by using third party sources to assist in our recovery efforts, rather than depending solely on our own resources. We anticipate that disclosures under the routine use will not result in any clearly unwarranted adverse effects on personal privacy.

Dated: December 21, 1981.

John A. Svahn,

Commissioner of Social Security.

JAMES L. OBERSTAR
8TH DISTRICT, MINNESOTA

COMMITTEES:
PUBLIC WORKS AND TRANSPORTATION

CHAIRMAN:
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

MERCHANT MARINE AND FISHERIES

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January 29, 1982

Mr. John A. Svahn
Commissioner
Social Security Administration
6401 Security Boulevard
Baltimore, Maryland 21235

Dear Commissioner Svahn:

I have just reviewed the Federal Register of January 8, 1982, in which the Social Security Administration proposed a "new routine use" of the Privacy Act of 1974 to divulge information from Black Lung, SSI, and social security records to third party bill collectors.

From the beginnings of the social security system, wage earners and beneficiaries have been assured that any personal information contained in the files was privileged. In an effort to assure the protection of this private information, the General Accounting Office has stressed the need for tightened safeguards (HRD-78-116 and HRD-81-151) emphasizing the need to develop a comprehensive program for protecting the personal data which is supplied to state and local entities under exchanges such as BENDEX, SDX, and the parent locator service. Nothing in the history of the release of information or the efforts made up to now to protect private information suggests to me that the Social Security Administration's proposal is "routine."

I strongly oppose the proposed routine use and urge that the time for comments be extended an additional 90 days and that full public hearings be conducted before it is implemented.

I look forward to your early response.

Sincerely,

James L. Oberstar, M.C.

JLO/ycm

MASSACHUSETTS LAW REFORM INSTITUTE
3 PARK SQUARE
BOSTON, MASSACHUSETTS 02116
AREA CODE 617
482-0890

January 21, 1982

SSA Privacy Officer
Social Security Administration
6401 Security Blvd.
Baltimore, MD 21235

Re: Comment on Intended Use of Third Parties
to Collect SSA Overpayments, 47 FR 1025

Dear Privacy Officer:

This letter is in response to the notice of proposed rule making contained in the Federal Register of January 8, 1982, 47 FR 1025. There it is stated that the Social Security Administration intends to establish new routine uses under the Federal Privacy Act of 1974 for the sharing of government files, specifically, files showing records of SSA payments to various recipients, for the propose of allowing third parties, including commercial collection agencies, to assist the Administration in recovering overpayments made to those recipients.

This office has been contacted by a client group which is adamantly opposed to the intended change, and we write to urge you to reconsider this expansion in the sharing of government files for this purpose.

First, we suggest that this notion of using collection agencies, state motor vehicle divisions and others to collect SSA overpayments is simply a bad allocation of scarce government resources. At a time of the shrinking government dollar to help people most in need, it seems incredible that some of that money would be used to contract with collection agencies so that they might squeeze people who, on the whole, have very little at all, even when they have received an overpayment in the past.

Second, we note that collection agencies have earned themselves, in general, a notorious reputation and have been responsible for the generation of special statutes in many states forbidding certain collection practices. In Massachusetts for instance, the legislature enacted M.G.L. c. 93 §49 specifically directed to some common abuses of collection agencies. A copy of that statute is enclosed herewith.

We would point out that any collection agency which contracted with the government to do SSA collecting and which runs afoul of this statute in Massachusetts could, of course, be proceeded against under the statute and the state consumer protection act, c. 93A. In such a case, the government itself might be sued for negligience in the awarding or supervision of the contract; and under the Equal Access to Justice Act the government could also have attorneys fees assessed against it, if the plaintiffs were successful.

Third, it has been the long standing policy of SSA to consider whether a recipient is entitled to a waiver of an overpayment only in those cases where recipients affirmatively request them. This is so even in those cases in which the circumstances clearly warrant the granting of waivers, for example, where the overpayment was caused by an Administration error, and the recipient, assuming the Administration had determined his or her benefits properly, accepted and spent the money. In most such cases, the recipient no longer has any of the overpaid moneys, and efforts to collect the overpayment will not have begun until long after the overpayment has been corrected.

We are greatly concerned that an independent collection agency, unaware or uninterested in the Administration's waiver policies, would fail to consider whether or not the recipient is entitled to request and/or receive a waiver of the overpayment.

For the reasons set out above, we strongly urge the Administration to abandon it proposal to utilize collection agencies or other third parties in its procedures for recovering overpayments.

We hope our comments are of assistance to the Administration in formulation of its final decision on this issue.

Sincerely,

Ernest Winsor
Attorney

Barbara E. Lybarger
Paralegal

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A. L. SINGLETON, MINORITY CHIEF OF STAFF

JAMES W. KELLEY, STAFF DIRECTOR

February 18, 1982

Mr. Peter Loeb
Executive Director
Disability Advocates
188 Marlborough Street
Boston, Massachusetts 02116

Dear Mr. Loeb:

This is in answer to your January 26, 1982 letter regarding changes in regulations to permit the Social Security Administration to use private collection agencies to assist in the recovery of social security overpayments. I appreciate your sending to me the analysis of the Massachusetts Law Reform Institute concerning this change, which was submitted to the Social Security Administration.

Even though I would expect the Social Security Administration to use only reputable collection agencies and techniques, I am concerned about the effects of this change in regulations.

I have already written to the Commissioner of Social Security asking him to furnish me with information concerning the Social Security Administration's immediate plans and ultimate goals in using the private collection agencies.

With best wishes, I am

Sincerely,

J. J. Pickle, Chairman
Social Security Subcommittee

JJP/kj

Statement of Commissioner Bill Gunter, Treasurer of the State of Florida, and President, National Association of State Treasurers

Mr. Chairman, members of the Subcommittee, thank you for the opportunity to submit testimony on the "delay of drawdown letter of credit" cash management procedure--an issue which has sparked much concern in many states throughout the country. I would like to present my comments to the Subcommittee in my capacity as Treasurer of the State of Florida and as President of the National Association of State Treasurers.

In 1978, the General Accounting Office (GAO) conducted a study which concluded that a number of states were receiving funds in advance of their actual cash disbursement needs and efforts should be made to improve control over cash management of federal funds. The GAO study prompted the Department of Health and Human Services to implement the delay of drawdown cash management procedure for the Aid of Families with Dependent Children, Medicaid, and Title XX programs. This procedure was designed to delay the state's draw of the federal share of the program funds until after checks and/or warrants have been written and sent to recipients. In other words, states would be required to issue checks without having federal funds in the state account to cover them. According to DHHS, delay of drawdown is slated for implementation in all fifty states by the end of FY 1982.

Unfortunately, however, the DHHS cash management initiative has cause near havoc in many states. Mr. Chairman, to be candid, the problem arises as we discover that very few states are in the habit of writing "bad checks". According to a survey conducted by the National Governors' Association, most states have established budget and accounting systems that will not allow a check to be issued without sufficient funds in the state account. In fact, twenty-two states, including Florida, have either statutory and/or constitutional prohibitions against the issuance of an unbacked warrant. For the Subcommittee's information, I have

attached letters addressed to me from several state treasurers detailing impediments to implementation of delay of drawdown.

Furthermore, states are limited in their ability to take measures aimed at compliance with delay of drawdown. DHHS officials have suggested that states should amend their state constitutions to allow for the issuance of unbacked warrants. States unable to consider this drastic measure are being forced to consider other unacceptable options such as actually delaying benefit checks to needy recipients or not implementing delay of drawdown and perhaps suffering the consequence of being unable to draw down the funds for these critical programs. In the State of Florida, we must consider a special appropriation of $26 million for a revolving fund to accommodate the late draw of federal dollars. Of course, Florida's option will only act as a short-term fix as anticipated fiscal pressures on the State will surely jeopardize this appropriation in upcoming legislative sessions.

These fiscal and legal problems have been communicated to DHHS Secretary Richard Schweiker on many occasions since the announcement of the delay of drawdown initiative. In the spirit of sound cash management, states unable to implement delay of drawdown have desperately offered to negotiate a mutually acceptable alternative with DHHS officials. However, these states have discovered DHHS to be less than receptive to this gesture. I am including an attachment to my testimony of exchanges between state representatives and Secretary Schweiker which demonstrates the broad interest in seeking a pragmatic solution to the delay of drawdown related problems as well as DHHS' adamant refusal to these requests.

Because of the continued inflexibility of DHHS with regard to delay of drawdown, I must regrettably inform the Subcommittee that relations between DHHS and the states have steadily deteriorated to the point of confrontation. A clear indication of this failing relationship was recently expressed at a meeting of State budget officials I convened last month in Washington to discuss this and other cash management issues. With over 80 percent of the invited states in attendance, the message was perfectly clear: (1) Many states cannot implement the delay of drawdown procedure without causing serious hardship; (2) Efforts to modify the procedure have been rejected by DHHS; and (3) A legislative remedy is imperative and should be sought without delay.

Mr. Chairman, I fully endorse the concept of prudent cash management. The philosophy behind delay of drawdown represents a commendable approach toward reducing the escalating federal deficit. However, if we are truly committed to controlled federal spending, a cooperative effort between the federal government and the states is essential. The DHHS initiative clearly violates this joint venture and, therefore, should be deferred until a more acceptable procedure can be agreed upon.

I urge the Subcommittee to consider H.R. 5871 in light of the arguments I have outlined today, as well as those presented in the attached letters from my colleagues. Your speedy approval would be greatly appreciated. I would be pleased to respond to the Subcommittee's request for additional information. Thank you.

MARY EVELYN PARKER
STATE TREASURER

State of Louisiana
DEPARTMENT OF THE TREASURY
P. O. BOX 44154
Baton Rouge
70804

March 9, 1982

Mr. Bill Gunter, President
National Association of State Treasurers
State Capitol
Tallahassee, Florida 32301

Dear Bill:

Thank you for your recent letter concerning implementation by the Department of Health and Human Services of the "delay of drawdown" cash management procedure. As you probably know, we have written to Mr. David A. Quinn of the Department of Health and Human Services concerning the State of Louisiana's legal problems with this procedure. We are attaching a copy of our letter and accompanying Attorney General's opinion. We are also enclosing copies of our letters to Senator Russell B. Long, Representative W. Henson Moore, and Representative W. J. "Billy" Tauzin.

Although we will not be able to attend the meeting on March 29, we certainly agree that a mutually acceptable alternative to delay of drawdown can be reached.

Please keep us informed on this very important issue.

Sincerely,

Mary Evelyn Parker
State Treasurer

MEP:ld

Enclosures

State of Louisiana
DEPARTMENT OF THE TREASURY
P. O. BOX 44154
Baton Rouge
70804

MARY EVELYN PARKER
STATE TREASURER

April 6, 1981

Mr. David A. Quinn, Director
Division of Cash Management Policy and Procedures
Office of the Secretary
Department of Health and Human Services
Washington, D. C. 20201

Dear Mr. Quinn:

We have transmitted your recent letter concerning the implementation of "delay-of-drawdown or checks-paid letter of credit" to the Attorney General's office and have asked them to look into this matter for us. The Attorney General's office has expressed serious legal reservations about this procedure, and we will transmit to you their thoughts when we receive them.

Sincerely,

Mary Evelyn Parker
State Treasurer

MEP:s

cc: Mr. Joel J. Deville
bcc: Mr. Fred Chevalier

State of Louisiana
DEPARTMENT OF JUSTICE
Baton Rouge
70804

WILLIAM J. GUSTE, JR.
ATTORNEY GENERAL

June 3, 1981
OPINION NUMBER 81-638

Honorable Mary Evelyn Parker
State Treasurer
State of Louisiana
Post Office Box 44154, Capitol Station
Baton Rouge, Louisiana 70804

Dear Mrs. Parker:

You have asked for an opinion regarding the legality of the implementation of a "delay-of-draw-down or checks paid letter of credit" system of spending an appropriation of funds by a state agency.

Currently, when a state agency such as the Department of Health and Human Resources needs to draw federal funds pursuant to appropriation in the General Appropriation Bill, that agency notifies the Treasurer's office of the amount needed and the Treasurer's office processes a letter of credit and cuts checks for the amounts. The letter of credit results in a Federal Reserve Bank wiring funds within one day to the appropriate bank so that when checks are presented, funds are available to honor those checks.

The proposed "delay-of-draw-down or checks paid letter of credit" system would result in federal funds not being wired to the appropriate bank until such time as it is anticipated that checks will actually have cleared, e.g., anywhere from two to four days on an average.

This office has found serious constitutional problems with using such a system. I would refer you to Article VII, Section 6(A) of the Louisiana Constitution of 1974 which reads as follows:

> "Section 6. (A) Authorization. Unless otherwise authorized by this constitution, the state shall have no power, directly or indirectly, or through any state board, agency, commission, or

> otherwise, to incur debt or issue bonds except by law enacted by two-thirds of the elected members of each house of the legislature. The debt may be incurred or the bonds issued only if the funds are to be used to repel invasion; suppress insurrection; provide relief from natural catastrophes; refund outstanding indebtedness at the same or a lower effective interest rate; or make capital improvements, but only in accordance with a compehensive capital budget, which the legislature shall adopt."

Although an appropriation of federal funds is made in the General Appropriation Act, such an appropriation is effective only upon the availability of federal funds. If the actual federal funds are not transferred until such time as checks are received, or possibly even after they are received, a debt has been incurred through the issuance of these checks since no funds are in the bank to cover them. This process would be strictly prohibited by the above-quoted provision of the Constitution since no state agency is authorized to incur debt except for capital improvements and even then upon a two-thirds vote of the Legislature. It is my understanding that checks under this system would not be issued for capital improvements to begin with, much less would they be authorized by a two-thirds vote of the Legislature. Under the current system, no debt is incurred since federal funds are available as the checks are released by the agency.

In addition, under this system there would be a technical violation of La. R.S. 39:57.1. This statute reads as follows:

> "§57.1 Expenditure of moneys in excess of funds appropriated; removal from office
>
> The expenditure of any moneys in excess of the funds appropriated or otherwise allocated for expenditure by any board, commission, department or agency of the state during any fiscal year shall constitute reasonable cause for removal from office of the officer or officers, whether elected or appointed, responsible therefor in accordance with the provisions of Article X of the constitution, unless said officer first has obtained approval therefor of the interim emergency board and of the legislature by a two-thirds vote of the members thereof taken by mail ballot conducted by said board; provided, however, that

the provisions of the section shall not apply to the department of military affairs or the department of public safety when a state of emergency has been declared by the governor so long as the department heads shall certify to the governor that the expenditure of funds is necessary as a direct result of said state of emergency. Amended by Acts 1976, No. 557, §1."

The release of checks prior to the receipt of funds in the appropriate bank would be technically the expenditure of moneys in excess of funds appropriated since the Appropriation Act only appropriates federal funds as made available by the federal government. As you can see, although there would be an anticipation of the receipt of such funds from the federal government during the delay period, checks would be outstanding with no funds appropriated or allocated to cover them. Thus, the officer or officers releasing such checks would be subject to removal from office unless the Interim Emergency Board and the Legislature, by a two-thirds vote, approves the release of the checks.

In addition, the criminal statute La. R.S. 14:71 on issuing worthless checks would probably come into play under the proposed system.

I would also make one last comment regarding the fact that since federal funds are appropriated only as made available, Article III, Section 16 and Article VII, Section 10 of the Louisiana Constitution would come into play since the checks would purport to withdraw moneys from the treasury under an appropriation that would not be perfected at the time the checks were actually released. That is, if the funds are not available at the time the checks are released, the appropriation has not been perfected since it is only made subject to availibility of funds. The above cited provisions prohibit expenditure of funds from the treasury except through valid (perfected) appropriation.

Based on the foregoing analysis, it is the opinion of this office that no checks should be released by a state agency to be paid through federal funds until the federal funds are actually made available and credited to the bank on which the checks are drawn.

Yours truly,

WILLIAM J. GUSTE, JR.
ATTORNEY GENERAL

BY: _____
FRED L. CHEVALIER
ASSISTANT ATTORNEY GENERAL

FLC:lld

State of Louisiana
DEPARTMENT OF THE TREASURY
P. O. BOX 44154
Baton Rouge
70804

MARY EVELYN PARKER
STATE TREASURER

March 9, 1982

Honorable Russell B. Long
United States Senate
Senate Office Building
Washington, D. C. 20510

Dear Senator Long:

For some time now, we have been concerned with the Federal Department of Health and Human Services' proposed implementation of the "delay of drawdown" cash management procedure for AFDC, Medicaid and Title XX programs. The proposed delay of drawdown system will provide that Federal funds would not be wired to the paying bank until checks were actually presented at the bank for payment. Even then, payment to the bank would only be made based on an historical check clearing pattern.

The current timetable calls for implementation to be completed in all states by the end of the Federal 1982 fiscal year. Besides the probable violation of the Louisiana Constitution and Statutes (see Attorney General Opinion #81-638 enclosed herewith), the delay of drawdown procedure will cause the State to actually issue checks for these services when no Federal funds to cover the checks have been received. A much better procedure, of course, would require that the Secretary of Health and Human Services provide the Federal funds to the states before the checks are issued.

We enclose herewith a copy of a draft amendment to the Social Security Act for your review. We encourage you to support this amendment which would allow a state to draw funds from the U. S. Treasury at a time which would assure that the funds would be in the state treasury when the checks were issued.

Your help and support on this important issue are appreciated.

Sincerely,

Mary Evelyn Parker
State Treasurer

MEP:ld
Enclosures

State of Louisiana
DEPARTMENT OF THE TREASURY
P. O. BOX 44154
Baton Rouge
70804

MARY EVELYN PARKER
STATE TREASURER

March 9, 1982

Honorable W. Henson Moore
House of Representatives
House Office Building
Washington, D. C. 20515

Dear Representative Moore:

For some time now, we have been concerned with the Federal Department of Health and Human Services' proposed implementation of the "delay of drawdown" cash management procedure for AFDC, Medicaid and Title XX programs. The proposed delay of drawdown system will provide that Federal funds would not be wired to the paying bank until checks were actually presented at the bank for payment. Even then, payment to the bank would only be made based on an historical check clearing pattern.

The current timetable calls for implementation to be completed in all states by the end of the Federal 1982 fiscal year. Besides the probable violation of the Louisiana Constitution and Statutes (see Attorney General Opinion #81-638 enclosed herewith), the delay of drawdown procedure will cause the State to actually issue checks for these services when no Federal funds to cover the checks have been received. A much better procedure, of course, would require that the Secretary of Health and Human Services provide the Federal funds to the states before the checks are issued.

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Your help and support on this important issue are appreciated.

Sincerely,

Mary Evelyn Parker
State Treasurer

MEP:ld
Enclosures

State of Louisiana
DEPARTMENT OF THE TREASURY
P. O. BOX 4154
Baton Rouge
70804

MARY E. (ELYN PARKER
STATE TREASURER

March 9, 1982

Honorable W. J."Billy" Tauzin
House of Representatives
House Office Building
Washington, D. C. 20515

Dear Representative Tauzin:

For some time now, we have been concerned with the Federal Department of Health and Human Services' proposed implementation of the "delay of drawdown" cash management procedure for AFDC, Medicaid and Title XX programs. The proposed delay of drawdown system will provide that Federal funds would not be wired to the paying bank until checks were actually presented at the bank for payment. Even then, payment to the bank would only be made based on an historical check clearing pattern.

The current timetable calls for implementation to be completed in all states by the end of the Federal 1982 fiscal year. Besides the probable violation of the Louisiana Constitution and Statutes (see Attorney General Opinion #81-638 enclosed herewith), the delay of drawdown procedure will cause the State to actually issue checks for these services when no Federal funds to cover the checks have been received. A much better procedure, of course, would require that the Secretary of Health and Human Services provide the Federal funds to the states before the checks are issued.

We enclose herewith a copy of a draft amendment to the Social Security Act for your review. We encourage you to support this amendment which would allow a state to draw funds from the U. S. Treasury at a time which would assure that the funds would be in the state treasury when the checks were issued.

Your help and support on this important issue are appreciated.

Sincerely,

Mary Evelyn Parker
State Treasurer

MEP:ld
Enclosures

STATE OF KANSAS

Office of the State Treasurer

JOAN FINNEY
STATE TREASURER
Telephone
(913) 296-3171

P.O. Box 737
535 KANSAS AVENUE
TOPEKA, KANSAS 66601

March 25, 1982

The Honorable Bill Gunter
Treasurer of the State of Florida
c/o Mr. Ronald Fried
444 North Capital
Suite 287
Washington, D.C. 20001

RE: State of Kansas
delay of drawdown
letter of credit

Dear Treasurer Gunter:

Please find enclosed an opinion issued by my legal department regarding the above subject. I am hopeful you will be successful in your efforts and that the enclosed is of some help.

Sincerely yours,

Joan Finney

JF:sc
Enclosure

Legal Memo To: Joan Finney
State Treasurer
State of Kansas

From: Agency Attorney Donald R. Hoffman

Re: Federal delay of drawdown letter of credit.

Question: Whether the "delay-of-drawdown letter of credit" system if implemented would violate existing Kansas law.

Answer: Yes.

Article 2 Section 24 of the State Constitution provides:

> "No money shall be drawn from the Treasury except in pursuance of a specific appropriation made by law, and no appropriation shall be for a longer term than two years."

A strict interpretation of this language has always been followed by the Kansas Supreme Court. State, ex pel. v Fadely 180K652, 309P2d537.

Descriptions of the system provided to this office clearly indicate that the possibility of clearances exceeding the drawn amounts may occur. It is proposed that if this occasion arises on a "continuing basis" the drawdown pattern could be re-computed. The obvious problem with the rationale is that in the meantime balances in fund accounts mandated to the State Treasurer's custody close in the red or with a negative balance.

K.S.A. 75-611 provides for civil actions against the Treasurer in refusing to "redeem" warrants when the funds are exhausted.

Clearly, no payment is authorized.

Your attention is further directed to the provisions of K.S.A. 75-3730 which provides in pertinent part:

> "All commitments and claims shall be preaudited by the division of accounts and reports as provided in K.S.A. 75-3731. No payment shall be made and no obligation shall be incurred against any fund, allotment, or appropriation, except liabilities representing the expenses of the legislature, unless the director of accounts and reports shall first certify that his or her records disclose there is a sufficient unencumbered balance available in such fund, allotment, or appropriation to meet the same...."

We are constrained to the view that implementation of the system as currently described would of necessity require funding to immediately terminate upon exhaustion of cash on hand.

DRH:sc

State of Rhode Island and Providence Plantations
EXECUTIVE CHAMBER, PROVIDENCE

J. Joseph Garrahy
Governor

TREASURER'S OFFICE
1982 MAR 10 A11:19

March 5, 1982

The Honorable Richard Schweiker
Secretary, U.S. Department of
Health and Human Services
200 Independence Avenue, S.W.
Washington, DC 20201

Dear Mr. Secretary:

New cash management procedures scheduled to be instituted by the Department of Health and Human Services will have a serious impact upon state finances. I understand that reimbursement for the federal share of public assistance payments could be delayed until after recipients have cashed their checks and those checks have cleared the bank.

This "delay of drawdown" policy would require our state to do one of two things, either overdraw our accounts - which is prohibited by state law - or cover the checks with state funds; a procedure which would cause additional fiscal pressures at a time when overall cash flow is already creating difficulties in our State.

Accordingly, I urge your reconsideration of this procedure.

Sincerely,

J. Joseph Garrahy
GOVERNOR

cc -
Ron Freund.

APR 1 1982

STATE OF OKLAHOMA
STATE CAPITOL
OKLAHOMA CITY, OKLAHOMA

LEO WINTERS
STATE TREASURER

March 15, 1982

Bill Gunter, President
National Asspciation of State Treasurers
State Capitol
Tallahassee, Florida 32301

Dear Bill:

I appreciated your letter of March 1, 1982. It will not be possible for me to attend the March 29, 1982, meeting in Washington, D.C. However, I am enclosing herewith copies of correspondence addressing this subject from my office and from our Governor's office which reflect Oklahoma's position in this matter.

Sincerely,

Leo Winters
State Treasurer

GEORGE NIGH
Governor

405 / 521-2342

STATE OF OKLAHOMA
OFFICE OF THE GOVERNOR
212 STATE CAPITOL BUILDING
OKLAHOMA CITY, OKLAHOMA 73105

February 5, 1982

The Honorable Richard S. Schweiker
Secretary
Department of Health and Human Services
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Mr. Secretary:

This is in response to your letter of January 27, 1982, requesting that I assist you in implementation of check paid letter of credit or delay of draw down for funds required by our various departments, including the Department of Human Services, for carrying out federal programs.

You stated that you would be willing to grant a temporary delay in implementation in Oklahoma to sixty (60) days following the closing of the next regular session of the Oklahoma Legislature in order to afford us the opportunity to adjust Oklahoma Statutes to facilitate implementation of your program. I must point out to you, as our State Treasurer did in his letter to your Department on September 3, 1981, (copy attached), that the implications of your delay of draw down proposal are prohibited by the Constitution of the State of Oklahoma. In order to change the Constitution, it is necessary that the Legislature adopt a resolution, placing the subject on the ballot for a vote of the people.

I personally am opposed to changing the Constitution to allow the Treasurer to release warrants not covered by funds on deposit, and since, in my opinion, it would not be possible to obtain legislative approval for such a resolution, nor would it be possible to obtain adoption of such a proposal from the citizens of the State of Oklahoma, I will not take any steps to request the Legislature to consider such a proposal.

As State Treasurer Leo Winters mentioned in his letter, it should be clear to you that Oklahoma cannot participate in the delay of draw down proposal.

Sincerely,

George Nigh

GN/BP
cc: Senate Pro Tempore Marvin York
Speaker Dan Draper
Treasurer Leo Winters
Mr. L. E. Rader, Department of Human Services
Mr. David W. Way, Budget Director
Mr. Carl Clark, Staff
Mr. Robert White, Staff
Mr. Dean Gandy, Staff
Oklahoma Congressional Delegation

STATE OF OKLAHOMA
STATE CAPITOL
OKLAHOMA CITY, OKLAHOMA

LEO WINTERS
STATE TREASURER

September 3, 1981

U.S. Department of Health & Human Services
Office of the Secretary D.A.S.F.
200 Independence Ave., S.W.
Room 705 D
Washington, D.C. 20201

Attn.: Larry Redman

Dear Mr. Secretary:

Enclosed you will find a copy of our letter to Mr. L. E. Rader, Director of Human Services, dated March 2, 1981. This letter was presented by members of my staff at a meeting on March 10, 1981, which was also attended by members of your staff.

Our posture in regard to proposed delay of drawdown for Federal Letter of Credit payments to the State of Oklahoma has not changed. The implications of said proposal are, furthermore, prohibited by the Constitution of the State of Oklahoma.

I trust this letter, along with your report of the meeting of March 10, will make it abundantly clear that the State of Oklahoma is precluded from participation in the delay of drawdown proposal.

Sincerely,

Leo Winters
State Treasurer

STATE OF MISSISSIPPI
TREASURY DEPARTMENT
BILL COLE
TREASURER

CLAUDIA F. CAMPBELL
DEPUTY TREASURER

POST OFFICE BOX 138
JACKSON, MISSISSIPPI 39205
TELEPHONE (601) 354-7117

April 13, 1982

Honorable William D. (Bill) Gunter
Insurance Commissioner and Treasurer
State of Florida
State Capitol
Tallahassee, Florida 32304

Dear Bill:

The State of Mississippi shares the same problem and concern of many of our sister states over the implementation of new federal funds draw down procedures.

Our Governor, in July of 1981, contacted our Congressional Delegation and Secretary Schweiker relative to this matter and requested at the time that a delay in implementation be granted until the issue could be addressed at the 1982 Legislative Session.

Secretary Schweiker granted a delay until 60 days after the legislative recess.

Because of our current statutory procedures, nothing short of complete alteration of the financial operation of state government would have to be addressed to accommodate the implementation of this procedure. The legislature, because of the magnitude, chose not to do this. However, faced with the Secretary's letter and the desire not to be in a situation of not being able to respond, the legislature has authorized the use of our General Fund Stabilization Fund in order to adjust accounts impacted by the draw down procedure.

I am enclosing a copy of this material that may be of interest to you.

Very truly yours,

Bill Cole

BILL COLE

BC/f
Enclosures

One Deposit Guaranty Plaza
Jackson, Mississippi 39201
Phone 601 354-8301

John P. Maloney
Chairman of the Board and
Chief Executive Officer

DEPOSIT GUARANTY NATIONAL BANK

July 14, 1981

Dr. Don Roark
Commissioner
State Department of Public Welfare
P.O. Box 352
Jackson, MS 39205

Dear Dr. Roark:

We appreciate the opportunity you and your associates have given us to serve as your depository for the State Department of Public Welfare, Assistance Payment Account (Aid to Dependent Children Account) since the account was moved back to our bank approximately one year ago. We have endeavored to do a good job in servicing the account and we believe that your operations people agree that Deposit Guaranty has the capabilities of doing a good job for you, including account reconciliation.

When we agreed to accept and service the account, we were aware that we would lose money each month because of the approximately 60,000 monthly check activity. However, we realized that our operating loss could be cut somewhat since the $5,000,000 in funds to be dispersed was deposited around the first of each month. On several occasions, however, there has been some delay in your receiving your funds from the United States Government and subsequently from the State of Mississippi. These delays, including the one we are presently experiencing, have caused our operating losses to be more than we can accept. You are aware that we are not allowed by statute to make any direct charges to your account for activity, interest on overdrafts, bad check charges, stop payments, etc. These, of course, are the usual charges we make when servicing commercial accounts.

We learned in our meeting with you, Colonel Lee Butler, Mr. Bill Cole and Mr. Tyrone Veal several weeks ago that a Cash Management team is recommending that your money to cover disbursements be drawn down and deposited nine times each month. In effect, the Assistance Payment Account would be operated with a zero or a negative balance. We would not have any collected balances to help cover the cost of handling your

substantial account activity. Also, under the new system, which we understand will be mandatory on October 1, 1981, we would still not be allowed to make any charges covering our usual servicing fees.

Another Mississippi law which adds to the problem is that the State Treasurer is required to disburse funds to agencies and pay State obligations through the use of warrants. This system delays our receiving collected funds to be deposited into the account by one to four days, depending on when we actually receive and collect the warrants. At the present price of funds, this delay adds considerable expense to our servicing the account.

Our depository contract dated June 30, 1980, which expires thirty months from that date, clearly states that we are expecting the use of some collected balances to compensate us for handling the ADC account. Unless we receive the entire amount of the deposit on the first day of each month, such could not possibly be the case. Anything less would be entirely unsatisfactory to the bank, since our management, as well as our stockholders, would not agree to a bigger loss than the one anticipated when the depository contract was signed.

If the Cash Management team and the Federal Government persist in mandating the proposed nine draw per month procedure, Deposit Guaranty will necessarily have to reconsider whether or not we will be able to continue handling the account. After you have had the opportunity to discuss this matter with those directly concerned, we would appreciate hearing from you.

Sincerely,

John P. Maloney
Chairman of the Board and
Chief Executive Officer

/cb

July 15, 1981

Honorable Richard Schweiker
Secretary of Health & Human Services
Washington, D.C. 20201

Dear Secretary Schweiker:

I wonder if you'll help the State of Mississippi regarding the proposed Federal policy change relating to delay draw methods of reimbursements which may cause future irreparable fiscal injury to our State?

Several meetings have been held with officials of our State Department of Public Welfare and members of your Division of Cash Management Policy and Procedure regarding the concept of a delay draw method of payment on allotments for the Aid to Families with Dependent Children (AFDC) program operated by our State Department of Public Welfare. I attach a copy of an agreement submitted by your representatives proposing nine separate delay draw payments to be made each month in our AFDC program. In this regard we have given your representatives a copy of a letter from our depository in which they indicate a present net loss as a result of handling approximately 60,000 AFDC checks monthly. Conclusively, our depository proposes that if the nine draw per month procedure is implemented, they will "have to reconsider whether or not we will be able to continue handling this account."

I have been advised by legal counsel that several State laws limit our ability to implement at this time any delay draw even if we had a depository willing to handle the account. For example, Mississippi Code Annotated Sections 27-105-1 and 27-105-9 prohibit any depository from making any direct charges to such a State account for activity, interest on overdrafts, bad check charges, stop payments, or any other expense to the State of Mississippi. In addition Mississippi Code Annotated Section 7-9-13 mandates that the State Treasurer is required to disburse funds to State agencies and pay State obligations through the use of warrants. This, of course, implies that funds should be deposited with the state depository before checks are issued obligating these funds. Therefore, under present State law a federal letter of credit is not the equivalent of cash. Since the implementation of delay of draw down letter of credit procedure is in conflict with State law and will require legislative action I request a delay in the implementation of this proposed policy until such time as this matter can be addressed in the next regular legislative session.

While we applaud attempts to achieve cash management efficiences by the Federal government, we do not see the logic of achieving these efficences at the irreparable fiscal expense of the State. By State law Mississippi must balance its budget each year. Mississippi has been hard hit by the economic events of recent years with anticipated tax revenues causing major cuts in all the state agencies. My approach to these economic difficulties has been to make some hard decisions. At this time the State of Mississippi simply cannot afford this proposed Federal policy change. For example, a change from advance to delay of drawn down letter of credits procedure would increase monetary and operational cost and consequently, administrative cost to programs.

Based upon the above legal grounds and sound fiscal principles, Mississippi respectfully requests an exemption or an alternative from the proposed delay draw methods of reimbursements.

With best personal regards,

Sincerely,

William F. Winter
Governor

cc: Mississippi Congressional Delegation

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON D.C. 20201

RECEIVED
SEP 28 1981
GOVERNOR'S OFFICE

SEP 23 1981

The Honorable William F. Winter
Governor of Mississippi
Jackson, Mississippi 39205

Dear Governor Winter:

This is in response to your letter of July 22, 1981, in which you request either an exemption from the proposed delay-of-drawdown letter of credit or an alternative method of reimbursement for the AFDC program.

In your letter you offer the following reasons to support your request:

-- The State depository indicates a present net loss as a result of handling approximately 60,000 AFDC checks monthly. Any change in the current arrangement would cause the depository to "reconsider whether or not they could continue to handle this account;"

-- State law prohibits any depository from charging a State account for activity, interest on overdrafts, bad check charges, stop payments, or any other expense to the State of Mississippi;

-- State law implies that funds should be deposited with the State depository before checks are issued obligating those funds. Therefore, under present State law a Federal letter of credit is not the equivalent of cash;

-- A change from an advance to a delay-of-drawdown letter of credit procedure would increase monetary and operational cost and, consequently, administrative cost to programs.

I would like to separately discuss each of the issues you have raised in your letter.

-- Departmental staff reviewed the AFDC program from a cash flow viewpoint. They determined that from October 1980 through March 1981 there was an average daily cash balance of $995,000 on hand. At least $497,000 (50 percent) of the amount was Federal cash. This large daily cash balance suggests strongly that the depository may not be incurring a "net loss."

-- It would appear that the Mississippi Code Annotated, Section 27-105-1 prohibiting charges to State accounts, is applicable to any depository and is not unique to the present depository. Given this restriction in the Mississippi State Code, it does not follow, however, that the Federal Government should provide a significant daily cash balance to the State depository.

-- Mississippi Code Annotated, Section 7-9-13, places severe restrictions upon the Federal Government to effectively manage its cash. The grant award authority is the document which authorizes a State to obligate funds for the Federal share of program expenditures. The letter of credit is the document which guarantees that cash is available as long as the State has grant award authority. However, the grant award does not require an actual transfer of funds in advance of State expenditures.

-- The change from an advance to a delay-of-drawdown procedure does result in a slight one-time increase in operating costs. It has been our experience that the cost increase averaged approximately $45,000 per State for the fourteen States currently operating under this procedure. The States were reimbursed for these increased costs.

In summary, I do not believe there is sufficient justification to grant the State of Mississippi an exemption from the Department's new financing procedures. Fourteen States are currently participating in our cash management initiative, and it is our objective--as an initiative to improve Federal cash management--to extend the implementation to all States during Fiscal Year 1982. Rather than implement the procedure now in your State, I am willing to extend the date for implementation to 60 days following the closing of the next regular session of your State legislature. This will afford the State an opportunity to adjust its statutes to facilitate implementation of the new procedure.

I trust that the above recommended delay is satisfactory and I appreciate your efforts in addressing this matter to your State legislature.

Sincerely,

Richard S. Schweiker
Secretary

96-377 O - 82 - 67

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

SEP 23 1981

The Honorable John C. Stennis
United States Senate
Washington, D. C. 20510

Dear Senator Stennis: John:

This is in response to your letters of July 27 and August 11, in which you transmitted the concerns of Mississippi Governor Winter and State Treasurer Cole over this Department's proposal to convert the State's Public Assistance payments to a delay-of-drawdown letter of credit procedure. Enclosed is a copy of my reply to Governor Winter and below is a summary of our correspondence.

In Governor Winter's July 22 letter to me, he offered the following reasons to support his request:

-- The State depository indicates a present net loss as a result of handling approximately 60,000 AFDC checks monthly. Any change in the current arrangement would cause the depository to "reconsider whether or not they could continue to handle this account;"

-- State law prohibits any depository from charging a State account for activity, interest on overdrafts, bad check charges, stop payments, or any other expense to the State of Mississippi;

-- State law implies that funds should be deposited with the State depository before checks are issued obligating those funds. Therefore, under present State law a Federal letter of credit is not the equivalent of cash;

-- A change from an advance to a delay-of-drawdown letter of credit procedure would increase monetary and operational cost and, consequently, administrative cost to programs.

In my response to the Governor, I separately discussed each of these issues.

-- Departmental staff reviewed the AFDC program from a cash flow viewpoint. They determined that from October 1980 through March 1981 there was an average daily cash balance of $995,000 on hand. At least $497,000 (50 percent) of the amount was Federal cash. This large daily cash balance suggests strongly that the depository may not be incurring a "net loss."

-- It would appear that the Mississippi Code Annotated, Section 27-105-1 prohibiting charges to State accounts, is applicable to any depository and is not unique to the present depository. Given this restriction in the Mississippi State Code, it does not follow, however, that the Federal Government should provide a significant daily cash balance to the State depository.

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-- The change from an advance to a delay-of-drawdown procedure does result in a slight one-time increase in operating costs. It has been our experience that the cost increase averaged approximately $45,000 per State for the fourteen States currently operating under this procedure. The States were reimbursed for these increased costs.

In summary, I do not believe there is sufficient justification to grant the State of Mississippi an exemption from the Department's new financing procedures. Fourteen States are currently participating in our cash management initiative, and it is our objective--as an initiative to improve Federal cash management--to extend the implementation to all States during Fiscal Year 1982. Rather than implement the procedure now in Mississippi, I extended the date for implementation to 60 days following the closing of the next regular session of the State legislature. This will afford the State an opportunity to adjust its statutes to facilitate implementation of the new procedure.

Thank you for your interest in this matter.

Sincerely,

Richard S. Schweiker
Secretary

Enclosure

MARK O. HATFIELD, OREG., CHAIRMAN

TED STEVENS, ALASKA
CHARLES H. PERCY, ILL.
JAMES A. MCCLURE, IDAHO
PAUL LAXALT, NEV.
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DALE BUMPERS, ARK.

J. KEITH KENNEDY, STAFF DIRECTOR
THOMAS M. VANDLIN, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, D.C. 20510

October 26, 1981

RECEIVED
OCT 29 1981
GOVERNOR'S OFFICE

The Honorable William F. Winter
Governor, State of Mississippi
Post Office Box 139
Jackson, Mississippi 39205

Original to Governor
Copy to John Henegan
Bill Cole

Dear Governor:

As you know, I submitted to the Secretary of Health and Human Services your concern and that of State Treasurer Cole over the Department's proposal to convert the State's Public Assistance payments to a delay-of-drawdown letter of credit procedure.

I received a letter from Secretary Schweiker some time ago, which I should have forwarded to you earlier, but neglected to do so. I hope the extension of the date for implementation of the proposed procedure to sixty days following the closing of the next regular session of the State legislature will be of assistance to you in this matter.

With warm personal regards, I am

Your friend,

John C. Stennis
United States Senator

JCS/kbc

cc: Mr. Bill Cole, Treasurer

COMMONWEALTH OF KENTUCKY
OFFICE OF STATE TREASURER
FRANKFORT 40601

DREXELL R. DAVIS
Treasurer

CLINTON H. NEWMAN II
Assistant Treasurer

April 7, 1982

Honorable Bill Guenter, President
National Association of State Treasurers
State Capitol
Tallahassee, Florida 32301

Re: Delay-of-drawdown

Dear Bill:

I am sorry that I could not attend the March 29, 1982, meeting in Washington, D.C., relating to the proposed delay-of-drawdown cash management procedure. I had intended to attend, but unfortunately, I had to stay in Kentucky and devote my attention to legislative matters.

I certainly share the concerns of the other state treasurers on the delay-of-drawdown issue. We believe that Kentucky law limits our ability to implement the "delay-of-draw", even if we wanted to. For example, KRS 41.150 states: "The Treasurer shall accept warrants drawn by the Department of Finance and issue a check on a state depository bank in payment therefore, if there is sufficient money in the Treasury appropriated for that purpose." This, of course, implies that funds should be deposited with the state depository before checks are issued obligating those funds. In addition, we oppose the delay-of-drawdown procedure for many other reasons, the main one being that this procedure would restrict our interest earnings.

Mr. George Fischer, Secretary, Finance and Administration Cabinet, 301 Capitol Annex, Frankfort, Kentucky 40601, is in charge of coordinating Kentucky's opposition to the delay-of-drawdown procedure. I would suggest that your staff make contact with Mr. Fischer and bring him up to date on recent developments.

Personally, I am very opposed to this move by the Department of Health and Human Services. I have written to Kentucky's Congressional Delegation in Washington to advise them of my stand on this matter. If there is anything further that I can do, please let me know.

Sincerely,

Drexell R. Davis

DRD:cg

cc: Ron Fried
Washington, D.C.

Bill Gunter
STATE TREASURER
INSURANCE COMMISSIONER
FIRE MARSHAL

State of Florida

Department of Insurance and Treasurer

THE CAPITOL
TALLAHASSEE 32301

October 9, 1981

(addressed to Florida Congressional delegation)

The United States Department of Health and Human Services is attempting to establish a "cash management procedure" which would require most states to violate constitutional and statutory prohibitions against overdrawing fund accounts. A second and equally damaging aspect of the procedure is that state revenues will be adversely affected.

As President of the National Association of State Treasurers, I initiated preparation of the attached resolution dealing with this procedure which is called "delay of drawdown". The resolution was passed at the annual meeting of our Association in August and I forward it to you for your review.

No one can properly be opposed to the efficient management of funds by the agencies of the federal government. However, the proposed procedure calls for state funding of the federal portion of jointly funded programs after the states have issued the benefit payments by check or warrant until these items clear through the banking system. This amounts to an illogical and unsupportable interference into the fiscal operations of the states.

Florida Comptroller Gerald Lewis has notified you of the problems that he has with the Department of Health and Human Services plan. I ask for your support in the halting of the implementation of the HHS "delay of drawdown" procedure, as Secretary Schweiker has thus far not seen fit to respond to any attempts to discuss this procedure. Please contact him in our behalf, as well as the appropriate Congressional Committees.

Thank you in advance for your much needed help.

Sincerely,

Bill

Bill Gunter
State Treasurer and
Insurance Commissioner

BG/sh

Enclosure

RESOLUTION

WHEREAS, the United States Department of Health and Human Services has proposed implementation of cash management techniques known as "checks-paid letter of credit" and "delay of drawdown" procedures for federal funding of Public Assistance Programs that are jointly funded by the state and federal governments; and

WHEREAS, the effect of implementation of either of these procedures will adversely affect the states involved through loss of investment revenue and increased recordkeeping requirements; and

WHEREAS, many states have constitutional or statutory provisions which prohibit paying out funds against insufficient fund balances; and

WHEREAS, the various states are providing valuable assistance to the Federal Government by administering Public Assistance Programs; and

WHEREAS, state governments can ill afford further reductions in revenue sources; and

WHEREAS, the "checks-paid letter of credit" and "delay of drawdown" procedures are irregular and are questionable by normal accounting and legal standards.

NOW, THEREFORE BE IT RESOLVED that the National Association of State Treasurers requests that the United States Department of Health and Human Services withdraw the "checks-paid letters of credit" and "delay of drawdown" procedures from use in dealing with the funding of programs administered by the states.

BE IT FURTHER RESOLVED that this Resolution was approved by the National Association of State Treasurers in Conference on August 21, 1981.

...
...th District, Florida

ARMED SERVICES COMMITTEE
Chairman of Seapower Subcommittee

...
311 Federal Building
Telephone 904-791-2397

JOHN W. POLLARD, JR.
BRENDA DONALDSON

Congress of the United States

House of Representatives

Washington, D.C. 20515

November 5, 1981

ADMINISTRATIVE ASSISTANT

W. BERLE BAY
LEGISLATIVE ASSISTANT

SHARON H. BIEGEL
LAURA M. DUNCAN
PATRICIA A. GODDING
BARBARA L. PETHEROLF
DARLA E. SMALLWOOD
WENDY B. LEAVITT
JUDSON E. MCNEIL
SECRETARIES

Honorable Richard Schweiker
Secretary, U.S. Department of
Health and Human Services
200 Independence Avenue, S.W.
Washington, D. C. 20201

Dear Mr. Secretary:

We would like to express our concern over a proposed Department of Health and Human Services (HHS) regulation which would adversely affect funding for key public assistance programs. The "delay of drawdown" cash management procedure would place many states, including Florida, in an untenable position.

The Treasurer and Comptroller of Florida have advised us of the constitutional and statutory prohibitions that prevent Florida from its overdrawing of fund accounts. If HHS were to implement the cash management regulations in their present form, Florida's already hard-pressed budget would be adversely affected, both through loss of revenue and increased administrative burdens. While we can appreciate your agency's efforts to curb federal spending and more effectively manage federal funds, we believe this approach is against the best interests of the states and their citizenry.

We urge you to delay the implementation of any cash management procedures until you have consulted with state representatives in order that a more mutually agreeable procedure may be established.

Sincerely,

Charles E. Bennett, M.C.
Dean, Florida Delegation

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DEC 18 1981

Honorable Charles E. Bennett
House of Representatives
Washington, D. C. 20515

Dear Mr. Bennett:

This is in response to your letter of November 5 in which you express the concern of the Florida delegation over a proposed Department of Health and Human Services' (HHS) regulation which would adversely affect funding for key Public Assistance programs. You further state that the "delay-of-drawdown" cash management procedure would place many States, including Florida, in an untenable position.

First, as background information, I would like to point out that HHS began implementation of the delay-of-drawdown procedure in fiscal year 1980. The plan, at that time, called for converting the ten largest recipient States in fiscal year 1980; the next twenty largest recipient States in fiscal year 1981; and the remaining twenty recipient States in fiscal year 1982. We have successfully implemented the delay-of-drawdown procedure in sixteen States as of December 31, 1981. Two additional States are in the process of converting to the new funding procedure.

Second, I can assure you that the delay-of-drawdown procedure does not change the Federal share of expenditures for the Public Assistance program. Each State, including Florida, will receive its proportionate share of funding based on existing statutes.

Third, the purpose of the delay-of-drawdown letter of credit is to generate outlay deferrals in order to reduce Treasury borrowing costs. This can be achieved by removing sizeable cash "float" from the banking system without adversely affecting the funding of the programs. We recognize that this procedure would stop a common practice in many States which draw Federal cash in advance of disbursement needs and use the "float" as a source of investment revenue. We do not believe that this revenue to the States should be at the expense of the Federal government.

Fourth, I do not believe that the delay-of-drawdown letter of credit procedure forces the States to overdraw their fund accounts. The letter of credit is a cash instrument which guarantees that Federal cash will be available to the States for the Federal share of expenditures. The

main difference between the existing letter of credit procedure and the delay-of-drawdown letter of credit procedure is the timing of when Federal cash is transferred from the Treasury to the States. We guarantee to the States that Federal cash will be provided to the banks as needed to meet the Federal share of checks which must be honored for payment.

Finally, it is our experience that the increased administrative costs to the States is small and is shared by the Federal government. We are only asking the States to draw funds more frequently based on their experienced patterns for checks clearing the banks.

While I respect and understand your views, I believe that the delay-of-drawdown letter of credit procedure is an equitable program for effectively managing the flow of Federal cash. Initiatives such as this procedure have the strong support of the General Accounting Office. In its report on "Improving Medicaid Cash Management Will Reduce Federal Interest Costs." HRD-81-94 dated May 29, 1981, the GAO concludes that "there is a need for both Federal and State governments to better monitor State drawdowns to minimize the amount of Federal funds being held by the States. HHS has acted to improve cash management in the ten largest States, but we believe action is necessary for other States."

I trust that the above explanation allays the concerns you expressed in your letter.

Sincerely,

Richard S. Schweiker
Secretary

FEB 25 1982

Mr. Richard S. Schweiker
Secretary of Health and Human Services
Washington, D.C. 20201

DELAY OF DRAWDOWN LETTER OF CREDIT

I am responding for Governor Brown to your January 27, 1982 letter informing us of your commitment to rapidly implement the delay of drawdown letter of credit program. As California has noted in the past, there is a State constitutional prohibition against the issuance of checks or warrants without sufficient funds in State depositories to cover them.

Your offer of temporarily delaying the effective date of this new procedure addresses those states with statutory problems, but it does not offer any solution to those states that have constitutional prohibitions.

The failure to acknowledge our constitutional problem is troublesome, in itself, but it becomes quite curious to us in light of the President's repeated calls for a "New Federalism" and his most recent proposal for the exchange of certain social program responsibilities with the states.

If the President is serious about assuming responsibility for Medicaid as the states take over other programs, why the "commitment to rapid implementation" of a procedure that, in fact, would not be needed?

MARY ANN GRAVES
Director of Finance

cc: Honorable Edmund G. Brown Jr., Governor
B. T. Collins, Governor's Office
Terri Thomas, Governor's Office
Walter McGuire, Department of Finance, Washington Office

2503A/00306

bcc: MAG, CLA, ROGERS, ROCKWELL, CASEY, RF, CF

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON D.C. 20201

JAN 27 1982

The Honorable Edmund G. Brown, Jr.
Governor of California
Sacramento, California 95814

Dear Governor Brown:

The Department of Health and Human Services wrote to you in December 1979 announcing that we would require the States to use a delay-of-drawdown letter of credit procedure for financing the Public Assistance programs. During 1980, Departmental staff met with various State officials to discuss implementing procedures. During the discussions, State officials informed us that California could not participate in this funding procedure due to constitutional and legal constraints.

Nevertheless, we are continuing our efforts to implement the delay-of-drawdown procedure in all the States. We have successfully converted sixteen States to the new funding procedure as of December 31, 1981. Two additional States are in the process of being converted. I am committed to implementing the delay-of-drawdown procedure as rapidly as possible in the fifty States with a goal of complete implementation by September 30, 1982.

I am writing to you to solicit your support and cooperation in helping to reach this major goal. I am willing to grant a temporary delay in implementation in California to sixty (60) days following the closing of the next regular session of your State legislature. This delay will afford the State an opportunity to adjust its statutes to facilitate implementation of the new procedure.

I know you share my concerns for improving the management of Federal cash and I appreciate your efforts in overcoming these legal barriers.

Sincerely,

Richard S. Schweiker
Secretary

STATE OF FLORIDA

OFFICE OF GOVERNOR BOB GRAHAM

MAR 05 1982

Honorable Richard Schweiker
Secretary, Department of Health
and Human Services
200 Independence Avenue, Southwest
Washington, D. C. 20201

Dear Mr. Secretary:

The Southern Governors' Association would like to express its grave concern and strenuous opposition to Federal plans to implement the proposed delay of drawdown cash management procedure.

At the outset, we want you to know that the Southern Governors agree with and support Department efforts to improve cash management procedures involving federal state human services programs. Indeed, a recent report by the Department's Office of Grants and Procurement evidences the fact that there are serious problems in this area.

As you know, the Grants and Procurement Office reviewed the flow of Federal funds to 12 states during Federal Fiscal Years 1979 and 1980. The programs studied were Medicaid, Aid to Families with Dependent Children, Title XX, and Title IV-D. As a part of its review, the Office imputed a hypothetical interest rate of 9.09 per cent in order to illustrate the overall impact of either advance drawdowns by the states or slow payments by the Department for these programs.

In the case of each program, the Office found slow payments by the Department were causing states to advance Federal shares. In the aggregate, had the hypothetical interest rate been applied, the Federal government would have owed the 12 states $3.3 million because of slow payments by the Department.

Now the Department's Office of Cash Management Policy and Procedures is seeking to implement delay of drawdown, with apparent disregard for state constitutions, state laws and the President's policy of New Federalism.

Under the delay of drawdown procedure, states would be required to distribute checks and warrants without the Federal share of program funds in state depositories to cover them. Almost all of the states have either constitutions or statutes which prohibit state officials from distributing checks or warrants without sufficient funds to cover them.

In 1980, the Office of Cash Management Policy and Procedures effectively rejected, by ignoring, the offers of several states to comply with the spirit of delay of drawdown. Those states offered, in exchange for the timely receipt of Federal program shares, to pay interest to the Department for the time such funds were actually in their possession.

Certainly, these offers by the states demonstrate their willingness to cooperate with the Department. However, we would like to call to your attention the following:

1. The Office of Grants and Procurement has shown that the Department is shorting the states on funds to which they have a right under federally mandated entitlement programs.

2. The Office of Cash Management Policy and Procedures has continued to ignore state constitutional prohibitions, in particular, which appears to contradict the President's policy of New Federalism.

3. The combined effect of the sluggish economy and shifts of Federal entitlement program funding responsibilities to the states is throwing many of the Federal government's Federalism partners into deficits.

From your perspective, you can appreciate our concern that the delay of drawdown program would cause not only state constitutional and statutory problems, but also it would result in undue additional fiscal pressures. We say "undue" because we believe that states with drawdown funds on the day they distribute checks or warrants are not abusing their partnership with the Department. We neither countenance state abuse of that partnership nor can we abide abuse of the states.

Therefore, we urge you to give serious consideration to the findings of the Office of Grants and Procurement and, in light of that report, to weigh the wisdom, equity and legal and fiscal ramifications of the effort on the part of the Office of Cash Management Policy and Procedures. Specifically, we would like you to defer implementation of delay of drawdown so that the Office of the Secretary may gather facts and make an informed judgment on these matters. We pledge our cooperation with your office in such an effort.

With kind regards,

Sincerely,

Bob Graham

Governor

BG/njs

SOUTHERN GOVERNORS' ASSOCIATION

Proposed Resolution
Pre-filed for February 23, 1982, Winter Meeting

Submitted by Governor Bob Graham, Florida
(SGA Lead Governor for Human Resources)

9. DELAY OF DRAWDOWN

The Southern Governors' Association agrees with and supports the intention of the U.S. Department of Health and Human Services to improve cash management procedures involving Federal-State human services programs.

A recent report by the Department's Office of Grants and Procurement evidences the fact that there are serious problems in this area. The office reviewed the flow of Federal funds to 12 States during Federal Fiscal Years 1979 and 1980. The programs studied were: Medicaid, Aid to Families with Dependent Children, Title XX, and Title IV-D.

As a part of its review, the Office imputed a hypothetical interest rate of 9.09 percent in order to illustrate the overall impact of either advance drawdowns by the States or slow payments by the Department for these programs. In the case of each program, the Office found slow payments by the Department were causing States to advance Federal shares. In the aggregate, had the hypothetical interest rate been applied, the Federal government would have owed the 12 States $3.3 million because of slow payments by the Department.

Now, the Department's Office of Cash Management Policy and Procedures is seeking to implement delay of drawdown, with apparent disregard for State Constitutions, State laws, and the President's policy of New Federalism.

Under the delay of drawdown procedure, States would be required to distribute checks and/or warrants without the Federal share of program funds in State depositories to cover them. Almost all of the States have either constitutions and/or statutes which prohibit State officials from distributing checks or warrants without sufficient funds to cover them.

In 1980, the Office of Cash Management, Policy and Procedures effectively rejected the offers of several States to comply with the spirit of delay of drawdown, by ignoring those states' offer. Those States proposed, in exchange for the timely receipt of Federal program shares, to pay interest to the Department for the time such funds were actually in their possession. Certainly, these offers by the states demonstrated their willingness to cooperate with the Department.

96-377 O - 82 - 68

In addition to the states' concern over constitutional and statutory problems, the delay of drawdown program also would result in undue additional fiscal pressures. We neither countenance state abuse of the Federal-State partnership with the Department nor can we abide the Department's abuse of the states. We believe that states which drawdown funds on the day they distribute checks or warrants are not abusing their partnership with the Department.

NOW, THEREFORE, BE IT RESOLVED, that the Southern Governors' Association express its grave concern and strenuous opposition to Federal plans to implement the proposed delay of drawdown cash management procedure.

BE IT FURTHER RESOLVED, that we call to the attention of the Department's Secretary, the Honorable Richard Schweiker, the following: (1) The Office of Grants and Procurement has shown that the Department is shorting the States on funds to which they have a right under Federally-mandated entitlement programs. (2) The Office of Cash Management Policy and Procedures has continued to ignore State constitutional prohibitions, in particular, and this appears to contradict the President's policy of New Federalism. (3) The combined effect of the sluggish economy and shifts of Federal entitlement program funding responsibilities to the States is throwing many of the Federal government's Federalism partners into deficits.

BE IT FURTHER RESOLVED, that the Southern Governors' Association urge Secretary Schweiker to give serious consideration to the findings of the Office of Grants and Procurement and, in light of that report, to weigh the wisdom, equity and legal and fiscal ramifications of the effort on the part of the Office of Cash Management Policy and Procedures. Specifically, we would request the Secretary to defer implementation of delay of drawdown so that the Office of the Secretary may gather facts and make an informed judgment on these matters. Southern Governors pledge to cooperate with the Secretary's office in such an effort.

# # #

NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

HALL OF THE STATES 444 NORTH CAPITOL STREET, N.W. WASHINGTON, D.C. 20001 (202) 624-5382

April 14, 1982

The National Association of State Budget Officers would like to express its concern and opposition to federal plans to implement the delay of drawdown cash management procedure. The attached resolution to that effect was adopted by the Association's Executive Committee on March 24, 1982.

The United States Department of Health and Human Services is seeking to implement the delay of drawdown letter of credit procedure. Under this procedure states would be required to distribute checks without the federal share of program funds in state bank accounts to cover them. Twenty-two states have constitutional or statutory prohibitions against this practice and several other states have administrative restrictions. In addition, the combined effect of the sluggish economy and shifts of federal entitlement program funding responsibilities to the states is causing some serious cash flow problems; therefore, it seems inappropriate to impose on the states the new financial burdens generated by this delay of drawdown procedure.

Recently H.R. 5871 was introduced by Representative Matsui in the Public Assistance and Unemployment Compensation Subcommittee of the House Ways and Means Committee. This bill allows the states to draw funds under Titles IV, XIX and XX at such time as is necessary to assure that such funds are available in the State Treasury. The funds may be drawn either at the time the state issues checks or warrants with respect to such expenditures or at a later date. This bill conforms with the thrust of our resolution.

The Association supports efforts to improve federal cash management procedures but not if it injures the states. We would like to see a cooperative effort between HHS, along with the Department of Treasury, and the states to gather facts on all joint state and federal programs in order to develop an even-handed method of cash management.

We urge your attention to this critical issue.

Sincerely yours,

S. Kenneth Howard

S. Kenneth Howard
President
State Budget Officer of Wisconsin

PROPOSED RESOLUTION OF THE

NATIONAL ASSOCIATION OF STATE BUDGET OFFICERS

WHEREAS, the United States Department of Health and Human Services has proposed implementation of a cash management technique known as "delay of drawdown letter of credit" for federal funding of Public Assistance Programs that are jointly funded by the state and federal governments, and

WHEREAS, under the delay of drawdown procedure, States would distribute checks and/or warrants without the Federal share of program funds in States depositories; and

WHEREAS, many States have either constitutions and/or statutes which prohibit State officials from distributing checks or warrants without sufficient funds; and

WHEREAS, the delay of drawdown program also would result in additional fiscal pressures on the States; and,

WHEREAS, we believe that States which drawdown funds on the day they distribute checks or warrants are not abusing their partnership with the Department; and

WHEREAS, a recent report by the Department's Office of Grants and Procurement which reviewed the flow of Federal funds to 12 States during Federal Fiscal Years 1979 and 1980, for certain programs found slow payments by the Department were causing States to advance Federal shares; and

WHEREAS, other departments of the Federal Government operate on a reimbursement system whereby States may only drawdown the Federal share of programs after expenditures have been made, thus requiring States to fully fund programs from State cash and recover the Federal share only upon billing; and

WHEREAS, the Department's Office of Cash Management Policy and Procedures is seeking to implement delay of drawdown, with apparent disregard for State Constitutions, State laws, and the President's policy of New Federalism.

NOW, THEREFORE BE IT RESOLVED that the Executive Committee of the National Association of State Budget Officers express its grave concern and strenuous opposition to Federal plans to implement the proposed delay of drawdown cash management procedure.

BE IT FURTHER RESOLVED, that we call to the attention of the Department the following: (1) The Office of Grants and Procurement has shown that the Department is reducing the entitlement to States on funds to which they have a right under Federally-mandated entitlement programs; (2) The Office of Cash Management Policy and Procedures has continued to ignore State constitutional prohibitions, in particular, and this appears to contradict the President's policy of New Federalism; (3) The combined effect of the sluggish economy and shifts of Federal entitlement program funding responsibilities to the States is causing many of the Federal government's Federalism partners serious cash flow problems.

BE IT FURTHER RESOLVED, that the Executive Committee of the National Association of State Budget Officers urge the Department to give serious consideration to the findings of the Office of Grants and Procurement and, in light of that report, to weigh the wisdom, equity and legal and fiscal ramifications of the effort on the part of the Office of Cash Management Policy and Procedures.

BE IT FURTHER RESOLVED that we request the Department to defer further implementation of delay of drawdown so that the Department, along with the Department of Treasury and the States may gather facts on all joint State and Federal programs in order to develop a uniform method of reimbursement.

Adopted March 24, 1982

April 22, 1982

Mr. John J. Salmon, Chief Counsel
Committee on Ways and Means
United States House of Representatives
1102 Longworth Office Building
Washington, D.C. 20515

Re: SSI Proposals contained in the FY-83 Budget

Dear Mr. Salmon:

It has just come to my attention that the budget proposal of the Administration would make drastic changes in the SSI disability program. I have represented a number of people who have alleged SSI disability, and I am very upset that the Administration would now seek to make the benefits under that program substantially more restrictive than the Social Security disability benefits, which are in of themselves difficult enough.

It is incongruous to me that the benefits for those people who have the least education, training, job history, and ability to survive without some form of public assistance - the SSI disability applicant - should be made more restrictive and should be determined without consideration of age, educational and training background, or other "nonmedical" facts. It has been my experience that the physicians I work with are strongly opposed to more objectification of disability requirements, not only because it removes some of the discretion from the human realm, but also because it tends to allow disability based on a mechanical operation when in fact medical diagnosis is rarely mechanical and the disabling quality of any illness varies drastically from person to person. Thus where one person might be incapacitated from the pain of a fairly minor back injury, another might continue employment even in the face of staggering illness. It is just these human factors, combined with work histories, age, and education which now allow our system to function with some degree of humanity. I totally oppose removing that humanity and making our system any less responsive to the human beings involved than it already is.

Thank you very much for your attention to this letter and my thoughts.

Yours,

James B. Gillespie, Jr.
Attorney at Law

JBG:kr

LOW INCOME ADVOCATES
155 BRACKETT ST.
PORTLAND, MAINE 04102
TEL: 775-0105

May 4, 1982

John G. Salmon, Chief Council
Committee on Ways and Means
102 House Office Building
Washington, D. C. 20510

Dear Representative Salmon:

WE WHO CARE, INC. is a 153 member organization devoted to the concerns of low income people and composed largely of A.F.D.C. mothers. Please submit these personal statements to the Subcommittee on Public Assistance and Unemployment Compensation as Statements for the Record.

Sincerely,

Jacquelin L. Stephens

Jacquelin L. Stephens
Project Manager

May 3, 82

Dear H. Ford,

I receive A.F.D.C. and in March. My check was cut because my oldest Son turned 18. But he has still got a year + a half to finish high school. He droped out because he was looking for a job to help out. I can't afford to buy him clothes on what I get from my check as it is only $223.00 a month. and I want him to continue School and he wants to go back because he can't find work. If he could be kept on my state check until he grad. from High School he could find a good job and further his edc. I can't find a job as I've been looking. I've been on nerve pills for almost a year due to illness. and not getting any better because of the money problems.

Thank You
Mrs Arnett
47 Forest St.
Portland Me.
04103

5/3/82

To H. Ford

I was cut off A.F.D.C. because My daughter turn 18, we were cut of with Nothing to do so for my son living with me. And paying my rent and Lights it would be on the street. My son is handicap and recieves S.S.I. it do recive food stamps But food stamps dont buy soap to clean with or clothes for my daughter to go to school in. My daughter is handicap and cannot work. it cant find a job it work when it can. My daughter needs special shoes clothes has to be made for her. it was cut off with winter coming My daughter needs to finish school so she can go on higher ed. she is a Smart and the only way a person can get a job it to be Ed. here in Maine every thing is closing down jobs are getting fewer.

Alice Surette
43 Front St
Portland, Maine 04103

Dear Harold Ford,

I am a A.F.D.C. mother and a disable one and can't work and better my self so I can get off Welfare. So I am pleading with yaw no more cuts for maine. cus We are the lowest State for A.F.D.C. Grants cus I am pleading again to yaw please dont take away for 16 and up. Because we just cant make it now. and mine will have to stop again. cus my 16 year old is a jr in High and I hate to see him drop out of school and go to a landing gate also when they are no jobs to be had in maine; Also, my 17 Yr. old who is in Foster

care and she is not
a Good Student and if
she come up the finish
Grant Ord but to go
for a Job and has to
Support her self she
will have quite a time
with out Her G.P.D. as
I was a drop out and
where did it get me?
3 Children and where did
it get me? no where
So please help us in
Maine and Dont let
Reagan do this to us
People in Maine

Sincerely,

Patricia E
Maywee
76 Main Jay South
Paris Me

DHR DEPARTMENT OF HUMAN RESOURCES
STATE OF MARYLAND 1100 NORTH EUTAW STREET BALTIMORE, MARYLAND 21201

OFFICE OF THE SECRETARY TELEPHONE:

April 12, 1982

RECEIVED
Ways and Means
APR 22 1982
Public Assistance and
Unemployment Compensation

The Honorable Fortney Stark
Subcommittee on Public Assistance and
Unemployment Compensation
House Ways and Means Committee
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Stark:

This is to express my strong support of HR 5871, a bill sponsored by Congressman Matsui, which would enable a State to draw down Federal funds for certain programs before, rather than after, the time the State must write checks against the money. Three programs would be affected: Aid to Families with Dependent Children, Title XX Block Grant and Medicaid.

The proposal would enable States to receive funds due them as needed and would block both current and planned procedures of the Department of Health and Human Services whereby Federal moneys are spooned out in inadequate portions each quarter or, if current plans are implemented, would be withheld until after the State has written checks against its own funds, and the checks have actually cleared.

In its Title XX Block Grant program Maryland is currently experiencing the ill-effects of the former technique. In accordance with requirements of the Office of Management and Budget, HHS makes available each State's block grant entitlement in four equal quarterly grant awards, irrespective of state obligations. Unfortunately, State expenditures do not break down neatly into four equal parts during the year. Maryland's actual expenditures for the October-December quarter of FFY 1982 exceeded the quarter's grant award by $5,726,546. We understand, and cannot fault, the Federal Government's efforts to avert a loss of interest, but in such cases, this economy is pursued at the expense of the States. Each State must resort to use of its own funds, foregoing the interest, for what is essentially a Federally-funded program. Furthermore, such acceleration in the use of State funds may result in the depletion of the State appropriation for this purpose before the end of the State fiscal year, leaving the State without resources with which to meet its commitments.

The procedure established by HR 5871 would correct the problem of the delayed or inadequate drawdown without violating the intent of Section 203, Intergovernmental Cooperation Act, which seeks to minimize the U.S. Treasury's loss of interest by prohibiting grant payments to the States too far in advance of the States' need of money.

HR 5871 would establish a system of fairness to both Federal and State governments in the movement of funds from the U.S. Treasury to the States for the AFDC, Title XX Block Grant and Medicaid programs. I hope you will give it your support.

Sincerely,

Kalman R. Hettleman

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

WILLIAM G. MILLIKEN
GOVERNOR

RECEIVED
Ways and Means
APR 26 1982

April 21, 1982

COMMITTEE ON
RECEIVED
APR 23 1982
WAYS AND MEANS

The Honorable Harold E. Ford
Chairman, Public Assistance and
Unemployment Compensation Subcommittee
2445 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Ford:

Your subcommittee is holding hearings on several important issues, including unemployment insurance. An issue of grave concern to the State of Michigan is the repayment to the federal government of Michigan's unemployment insurance debt.

Michigan is experiencing the worst economic downturn since the Depression. Our unemployment rate which has exceeded 10 percent for more than 2 years, is currently at a staggering 17 percent. As a result, our Unemployment Insurance Trust Fund has been forced to borrow substantial funds from the federal government to continue paying benefits. It is estimated that the Fund will borrow up to $2.0 billion by the end of this year.

Our economy will face two additional burdens as a result of our continued borrowing and indebtedness. First, beginning in January of 1983, Michigan employers will be subject to a federal penalty tax of 0.3 percent on 1982 wages. This tax will increase by 0.3 percent a year until the entire debt is repaid. To retire a debt of $2.0 billion, the penalty tax would have to reach 2.4 percent in 1990. An extra tax of this magnitude would have clear and direct negative effects on Michigan's attempts to revive the state's economy.

Second, new money borrowed after April 1, 1982, will be subject to an annual interest rate of up to 10 percent. Due to statutory requirements, this interest penalty cannot be paid from the state's trust fund and therefore must come from general revenues or some other source of financing. It is expected that Michigan will incur interest charges of approximately $900,000 in 1982. These charges could be as high as $14 million in 1983, $45 million in 1984 and $69 million in 1985.

I firmly believe that the ultimate responsibility for assuring the solvency of state trust funds belongs to the state and not the federal government. At the same time, however, I also believe that the extraordinary economic conditions Michigan is facing warrant some special consideration. In particular, I urge your consideration of the reforms listed below.

1) A Delay of Interest Charges and the Penalty Tax in High Unemployment States

The Michigan legislative leadership and I have been working with Senator Robert Dole to develop a proposal that would give Michigan some temporary relief from interest payments and penalty taxes during our current economic crisis. Attached is a copy of our letter to Senator Dole describing a preliminary proposal.

2) Allow States to Avoid Penalty Taxes by Paying the Amount of the Tax from State Trust Funds

States should be allowed to avoid the imposition of the FUTA penalty tax on state employers by paying the amount of the tax from the trust fund. Allowing states to substitute new trust fund revenues for the penalty tax would provide clear incentives to improve the solvency of state trust funds in order to avoid penalty taxes.

I urge your consideration of these reforms. I recognize that the ultimate solution must be worked out at the state level, and I am strongly committed to achieving significant state reforms to avoid future indebtedness. However, I also believe that temporary relief is clearly warranted in light of the severely depressed economic conditions we are experiencing.

Thank you for considering my views.

Warm personal regards.

Sincerely,

Governor

cc: Congressman Dan Rostenkowski
Chairman, Ways and Means Committee

William G. Milliken

Missouri Child Support Enforcement Assoc
c/o Support Enforcement Unit
Office of Prosecuting Attorney
Buchanan County
St. Joseph, Missouri 64501

Patricia Eddins
President
(816) 271-1492

April 5, 1982

TO: SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION
COMMITTEE ON WAYS AND MEANS

FROM: MISSOURI CHILD SUPPORT ENFORCEMENT ASSOCIATION
PATRICIA EDDINS, PRESIDENT

SUBJECT: CHILD SUPPORT ENFORCEMENT PROGRAM
ALTERNATIVE FUNDING PROPOSAL

The Missouri Child Support Enforcement Association appreciates this opportunity to express our concerns and recommendations concerning the Administration's proposed budget cuts and alternative funding proposals for fisical years 1982 and 1983, regarding the Child support Enforcement Program.

ALTERNATIVE FUNDING PROPOSAL

The Federal government (HHS), Office of Child Support Enforcement, is attempting to implement, effective July 1, 1982, a "formula" that would totally restructure the program's funding mechanism. It will eliminate the present funding rate of 75% for state and local administrative costs and the 15% incentive for AFDC collections. The new formula requires states to fund their entire program expenditures (both AFDC and Non-AFDC) from their AFDC collections. Incentive payments are to be paid based on increased AFDC collections and improved cost effectiveness.

The Administration's budget package projects a savings of $35 million for 1982 and $157 million for 1983. Out of these savings, $25 million is expected from actual expenditure reductions for 1982 and $100 million for 1983, due to the implementation of the new formula. It is being presented as a means to increase cost effectiveness and efficiency in States' programs, but was actually developed from the ground up to meet a predetermined budget cut.

As of this writing, we are still waiting for the official formula and the supportive data which reflects how the formula will effect each state. So far, only unofficial versions of the formula have been released by the Administration.

PROBLEMS AND EFFECTS OF THE FORMULA

1). Increased AFDC expenditures; elimination of the Non-AFDC program.

As stated previously, states will be required to fund their entire program costs out of their AFDC collections. States will still be responsible to maintain a Non-AFDC program, but there will be no positive funding for this portion of the program.

Recent budget cuts have taken thousands off the AFDC rolls. These people now, more than ever, are relying on the Non-AFDC program to assist them in obtaining their child support. Because of the inevitable demise of the Non-AFDC program, their last hopes are being quashed.

Last year, $870 million was collected nationally for Non-AFDC children. These collections produce a direct cost avoidance factor.

Because of the reduced enforcement, Non-AFDC collections will drastically decrease, the children will be deprived of support monies, and their parents will be forced to turn to the government for assistance. If they are ineligible for assistance, and they are unable to afford private counsel, then there is nowhere else for them to turn.

This in turn means that absent parents have successfully been allowed to shirk their parental and financial responsibility; a fact that is contrary to one of the program's main goals and a fact that is also contrary to the present Administration's beliefs.

2). Minimize cooperation between states on interstate cases.

The new funding structure provides no incentive for interstate cooperation. This lack of incentive will necessitate local jurisdictions to adjust their entire program emphasis to their own local AFDC caseloads. Past strides toward interstate reciprocity will be stymied producing an elimination of interstate collections.

A move across state lines will once again allow the shirking of parental financial responsibility and the children will suffer from this allowed deprivation of support.

3. Reduced Establishment of Paternity.

Seventeen percent (17%) of the present births in this country are out-of-wedlock. In the past fiscal year,

approximately 150,000 paternities were established. Reductions in funding will curtail this important accomplishment of the program because these cases are costly to handle. America's children born out-of-wedlock will be denied their identity and legal rights.

4. Incapability of states and local political subdivisions to appropriate additional funding.

Missouri, like many states, has a fiscal year which runs from July 1 to June 30. FY 1983 funding allocations are presently before the state legislature and the funding levels have already been determined. In order to implement the new formula, appropriation changes will be necessary and that requires legislative approval. There is little time left to make these changes.

The local governments in Missouri, and in other states, have an even greater problem. Their fiscal periods run with the calendar year and there is absolutely no flexibility to change this year's appropriation. This makes it impossible for the political subdivision to make adjustments which will be necessary to meet the formula implementation deadline of July 1, 1982.

In Missouri, there are approximately 650 people employed with the Child Support Enforcement Program. 205 Workers are employed by the State and the remaining 445 are employed by the 115 political subdivisions. The inability to appropriate additional funding will necessitate drastic reductions in staffing. As a result, strong enforcement activities will diminish and collections will plunge downward.

Also, not only are additional funding appropriations virtually impossible to acquire; but the formula is also burdensome to administrate and financially unreliable. Local jurisdictions will have to become experts in collection and expenditure forecasting and will be expected to accurately predict economic conditions such as in unemployment rates and inflationary factors which affect collections and expenditures. This extremely difficult task, along with the other problems caused by this new formula, will force many localities to withdraw from the program. In turn, major gaps in the enforcement network will develop and escape havens will again be established.

RECOMMENDATIONS AND CONCLUSION

Missouri, along with other states, recognize that we have a responsibility to the taxpayer to operate an efficient and cost-effective program. In the past five years, we have all been working very hard to attain this goal.

No other program has so drastically removed the financial burden from the taxpayers and returned the responsibility of supporting America's children to their parents.

In the past eighteen months, many states have passed legislation which should produce increased collections. Missouri has legislation pending which, if passed, is expected to increase our FY 83 collections by $8.8 million over Fy 82. Numerous states have passed tax intercept and wage assignment laws. Additionally, the Federal tax intercept law is in its infancy and

has not yet been evaluated. This surge of legislative activity needs time to work.

Time is needed to find a more realistic means of redirecting cost responsibility.

The program must be strengthened rather than weakened. The foundation which has been laid over the past several years should not be allowed to erode.

We believe America's children are worth the investment and they should not be victimized by this hastily concocted attempt to reduce the federal expenditure.

We recommend that Congress be sensitive to the above problems and effects. Pro-child support enforcement legislation is needed. The growing momentum behind the program should be recognized and endorsed.

One goal of the present Administration is to reduce the federal budget and we feel that the Child Support Enforcement program DOES run concurrent with this goal. The proposed funding formula must be discarded so that the children and local taypayers of this country remain the beneficiaries of this program.

The Missouri Child Support Enforcement Association is grateful for this opportunity to express our concerns and beliefs.

STATEMENT OF THE NATIONAL ASSOCIATION OF COUNTIES

THE NATIONAL ASSOCIATION OF COUNTIES SUPPORTS EFFORTS TO ACHIEVE A BALANCED FEDERAL BUDGET, AND WE HAVE TAKEN A LARGE SHARE OF THE CUTS THAT WERE ENACTED LAST YEAR; IN FACT, COUNTIES SUSTAINED 15 PERCENT REDUCTION IN FEDERAL FUNDING. ACCORDING TO THE CONGRESSIONAL BUDGET OFFICE, SOME 60 PERCENT OF THE REDUCTIONS IN GRANTS TO STATE AND LOCAL GOVERNMENTS CAME FROM PROGRAMS TARGETED TOWARD LOW INCOME INDIVIDUALS OR THOSE RECEIVING PUBLIC ASSISTANCE. QUITE LIKELY, BOTH THE POOR PEOPLE AND THE COUNTIES THAT SERVE THEM HAVE NO "FAT" FROM WHICH TO TRIM FURTHER SAVINGS.

ALTHOUGH NACo CONTINUES TO ENDORSE THE GOAL OF A BALANCED BUDGET, WE DO NOT FEEL THE EFFORT SHOULD BE DIRECTED AT FURTHER CUTS IN DOMESTIC PROGRAMS FOR FISCAL 1983. NACo SUPPORTS A MORATORIUM ON FEDERAL BUDGET REDUCTIONS IN DOMESTIC PROGRAMS AFFECTING LOCAL AND STATE GOVERNMENT. WITH RESPECT TO THE PROPOSED NEW FEDERALISM TURNBACK/SWAP, NACo RECENTLY REAFFIRMED ITS POSITION THAT INCOME SECURITY PROGRAMS SHOULD BE THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT.

LAST YEAR NACo SUPPORTED A NUMBER OF CHANGES THAT ESTABLISHED BLOCK GRANTS AND REDUCED THE COST OF WELFARE AND SOCIAL SERVICES PROGRAMS. MANY OF THESE CHANGES ARE STILL IN THE PROCESS OF IMPLEMENTATION, AND THEIR EFFECTS ARE BEING FELT AT THE LOCAL LEVEL. WHILE WE CONTINUE TO SUPPORT BLOCK GRANTS AND TRANSFER TO THE STATES OF MANY CATEGORICAL PROGRAMS UNDER THE PRESIDENT'S PROPOSED TURNBACK, WE MUST

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* THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

INSIST ON A MORATORIUM ON FURTHER REDUCTIONS IN THE FEDERAL PROGRAMS THAT AFFECT COUNTIES, UNTIL WE CAN DETERMINE WHAT THE IMPACT OF THE CUTS ALREADY ASSESSED ON US AND OUR CONSTITUENTS WILL BE.

COUNTY OFFICIALS ARE FACED WITH THE DUAL RESPONSIBILITY OF HAVING TO CONTINUE TO CARE FOR THE NEEDY AND PROVIDE CRITICAL SOCIAL SERVICES, WHILE AT THE SAME TIME HAVING TO INCREASE REAL PROPERTY TAXES TO PAY FOR THEM, UNLESS THE FEDERAL GOVERNMENT PACES ITS APPROACH TO BUDGET CUTTING. WE ARE NOT FINDING THAT COUNTIES ARE ABLE TO MAKE UP THE LOST FEDERAL FUNDS. ALTHOUGH MANY SERVICES ARE BEING PRESERVED BY JUGGLING FUNDS AND PROGRAMS, IN MANY CASES THE SERVICES ARE JUST DISAPPEARING.

WE WILL CONTINUE TO SUPPORT THE CONSOLIDATION OF NARROW CATEGORICAL PROGRAMS INTO BLOCK GRANTS THAT INSURE THE PARTICIPATION OF COUNTY ELECTED OFFICIALS IN THE FUNDING AND ALLOCATIONS DECISION PROCESS, PROVIDED THAT THE FEDERAL FUNDING LEVEL OF THE BLOCK GRANTS IS NOT SUBSTANTIALLY REDUCED. SPECIFICALLY, WE OPPOSE FURTHER REDUCTIONS IN THE SOCIAL SERVICES BLOCK GRANT, THE COMMUNITY SERVICES BLOCK GRANT, AND THE LOW INCOME ENERGY ASSISTANCE BLOCK GRANT. FOR THE SOCIAL SERVICES BLOCK GRANT (TITLE XX), NACo SUPPORTS PROVISIONS OF H.R. 5791, INTRODUCED BY CHAIRMAN FORD OF THIS SUBCOMMITTEE, WHICH WOULD SET 1983 SPENDING AT $2.6 BILLION, AND INCREASE TO $3.0 BY 1985, WHICH IS STILL LESS THAN THE 1983 LEVEL WOULD HAVE BEEN PRIOR TO THE RECONCILIATION ACT LAST YEAR.

THE PROPOSED CHILD WELFARE BLOCK GRANT IS ACCEPTABLE, AT 1982 FUNDING LEVELS FOR THE PROGRAMS CONTAINED WITHIN IT, AND PROVIDED THAT FUNDS ARE APPROPRIATED SEPARATELY FOR FOSTER CARE MAINTENANCE PAYMENTS, AS PROVIDED IN THE ENTITLEMENT LANGUAGE ESTABLISHED LAST YEAR.

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WITH RESPECT TO THE WIN PROGRAM, NACo RECOMMENDS APPROPRIATING THE 1982 LEVEL OF $346 MILLION IN ORDER TO PRESERVE SOME CAPACITY FOR STATES AND COUNTIES TO CARRY OUT THE RECENTLY ENACTED WORKFARE PROVISIONS OF THE RECONCILIATION BILL. NACo SUPPORTED THESE WORKFARE PROVISIONS, AND WE BELIEVE IT IS VITAL TO IMPLEMENT THEM. ELIMINATING THE WIN FUNDS REMOVES THE ONLY SOURCE OF FISCAL INCENTIVES AVAILABLE TO STATES AND COUNTIES FOR THE IMPLEMENTATION. WE CANNOT, HOWEVER, SUPPORT MAKING WORKFARE PROGRAMS MANDATORY. STATES AND COUNTIES ARE SUFFICIENTLY INTERESTED IN DEVELOPING SOUND WORK PROGRAMS, AS EVIDENCED BY THE FACT THAT HHS IS GRANTING NUMEROUS WAIVERS TO STATES FOR TESTING A VARIETY OF APPROACHES.

NACo SUPPORTS THE ADMINISTRATION'S PROPOSED ERROR RATE PENALTY AS SIMPLY A SHIFT OF COSTS FROM THE FEDERAL BUDGET ON TO STATES AND COUNTIES. THE RECENT CHANGES IN WELFARE ADMINISTRATION AND FEDERAL AND STATE BUDGET REDUCTIONS HAVE ALREADY RESULTED IN PRESSURES ON PROGRAM OPERATIONS WHICH MAKE IT DIFFICULT TO ENSURE QUALITY CONTROL. THE PROPOSED COMBINED WELFARE ADMINISTRATION BLOCK GRANT, WITH 5 PERCENT LESS FUNDING, WOULD ONLY COMPOUND THE PROBLEMS. THE PROGRAMS NEED A CHANCE TO STABILIZE OPERATIONS, NOT CONSTANT CHANGES.

NACo SUPPORTS THE PROPOSED "VOLUNTARY QUIT" PROVISION TO REMOVE THE PARENT FROM AFDC IF EMPLOYMENT OR WORKFARE ASSISGNMENT IS REFUSED (AND THE PARENT IS IN THE REQUIRED-TO-WORK CATEGORY), PROVIDED THAT GOOD CAUSE EXEMPTIONS ARE USED BY THE STATE. WE ALSO SUPPORT ALLOWING STATES THE OPTION TO REQUIRE PARENTS OF CHILDREN AGE 3-6 TO PARTICIPATE IN WIN OR WORK PROGRAMS, PROVIDED THAT ADEQUATE CHILD CARE IS AVAILABLE. FURTHER, WE SUPPORT REDEFINING THE AFDC UNIT TO INCLUDE ALL (RELATED) MEMBERS OF THE HOUSEHOLD, TO HELP ENSURE THAT BENEFITS

ACCURATELY REFLECT FAMILY CIRCUMSTANCES.

UNEMPLOYMENT INSURANCE

NACo RECOGNIZES THE NEED FOR A SYSTEM OF UNEMPLOYMENT INSURANCE COVERAGE AS A CONTINUING BASELINE OF SUPPORT FOR THOSE WORKERS WHO ARE TEMPORARILY WITHOUT A JOB. IN SETTING NATIONAL SPENDING PRIORITIES, HOWEVER, NACo ENDORSES PROVIDING FEDERAL SUBSIDY FOR VARIOUS JOB-CREATION ACTIVITIES AS AN ALTERNATIVE TO MASSIVE FEDERAL SUBSIDY OF UNEMPLOYMENT.

WE SUPPORT STATE TRUST FUND FINANCING OF THE UNEMPLOYMENT INSURANCE PROGRAM DURING THE FIRST TWENTY-SIX WEEKS OF UNEMPLOYMENT.

BASIC TWENTY-SIX WEEK UNEMPLOYMENT INSURANCE BENEFITS SHOULD BE THE PRIMARY SOURCE OF INCOME DURING PERIODS OF TEMPORARY UNEMPLOYMENT.

NACo SUPPORTS FEDERAL FUNDING FOR EXTENDED BENEFITS (EB) PROGRAM PAYMENTS WHEN THE STATE INSURED UNEMPLOYMENT RATE TRIGGERS EXTENDED BENEFITS.

WE SUPPORT FULL FEDERAL GENERAL REVENUE FUNDING FOR EMERGENCY UNEMPLOYMENT COMPENSATION PROGRAMS SUCH AS THE FEDERAL SUPPLEMENTAL BENEFITS (FSB) PROGRAM.

NACo OPPOSES STRUCTURING THE UNEMPLOYMENT INSURANCE SYSTEM TO PROVIDE FOR BENEFIT LEVEL DETERMINATION AND ELIGIBILITY DETERMINATION BY THE FEDERAL GOVERNMENT. BENEFIT LEVELS AND ELIGIBILITY CRITERIA SHOULD BE ESTABLISHED THROUGH STATE LAW INSTEAD OF BY A FEDERAL MANDATE TO STATES.

WE SUPPORT THE USE OF UNEMPLOYMENT INSURANCE BENEFITS FOR SUBSIDY OF JOB-TRAINING OPPORTUNITIES AND WAGES FOR PUBLIC AND PRIVATE SECTOR JOBS FOR INDIVIDUALS AFTER THIRTEEN WEEKS OF BENEFITS.

NACo SUPPORTS THE TAXATION OF UNEMPLOYMENT INSURANCE BENEFITS AFTER AN INDIVIDUAL'S INCOME INCLUDING THOSE BENEFITS EXCEEDS 125 PERCENT OF THE BLS LOWER LIVING STANDARD INCOME LEVEL.

WE APPRECIATE THIS OPPORTUNITY TO PRESENT NACo'S VIEW AND WILL RESPOND FURTHER WHEN THE ADMINISTRATION'S LEGISLATION IS PRESENTED.

STATEMENT

OF THE

NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers is an organization of nearly 12,000 members of every size and industrial classification located in every state. NAM also has an affiliation with an additional 158,000 businesses through its Associations Department and the National Industrial Council. The NAM welcomes this opportunity to comment on the Administration's FY 1983 budget proposals involving unemployment compensation.

Our membership employs a majority of the country's industrial labor force and produces over 75 percent of the nation's manufactured goods. As such, we are extremely concerned about the solvency and stability of the federal-state unemployment compensation system which, with very few exceptions, is financed solely by employer paid taxes. NAM believes that retention of the meaningful reforms enacted in the Omnibus Budget Reconciliation Act of 1981 is essential if the unemployment compensation system is to be maintained as a state-administered wage replacement program for the temporarily unemployed.

Since 1935, this nation has employed the federal-state system of unemployment compensation to provide benefits to individuals who

are temporarily and involuntarily unemployed and to encourage steady employment which is vital to our free enterprise economy. The UC system was intended to operate in the public interest and not on behalf of any special group and to be so interpreted and administered. From the inception of the program, it has been amended numerous times; several of those extensions have resulted in a maldistribution of costs and administrative problems which were not originally intended.

Why is the NAM and the manufacturing industry concerned with UC problems? The answers should be obvious, FIRST: manufacturing employers want and need a fair and equitable unemployment insurance system which provides protection for their laid-off workers; and SECONDLY: employers finance 100% of each states' UC system, with the exception of three states in which employees make very small contributions.

Workers who are temporarily unemployed through no fault of their own, who are genuinely part of the work force, who are sincerely and actively seeking employment, who do not refuse suitable employment when offered and who are not unemployed as a result of a labor dispute, need and deserve a sound unemployment insurance program to provide a partial indemnity of lost wages during periods of "temporary unemployment."

Since individual states are better equipped to evaluate the economic and social needs of their economy, NAM strongly believes they should have the responsibility of determining the periods which should be classified as "temporary unemployment." Federal

legislation should not infringe upon the rights and ability of the states to administer their systems. Federal responsibilities should not include the establishment of any binding standards which preempt state unemployment compensation programs.

The pendulum in UC matters has begun to swing back to a more fiscally responsible viewpoint. NAM encourages the Ways and Means Subcommittee on Public Assistance and Unemployment Compensation to move with the pendulum's swing by not repealing the Administration's proposals recently enacted to tighten the system and to aid in removing the disincentives to return to work. Specifically, NAM requests that Congress:

1. Not repeal the elimination of the national trigger.

The experience of each state should dictate if extended benefits are feasible and a determination by the state to make such payments should never be dependent upon the economic conditions of other states. National "triggering" creates a national subsidy which cannot be justified economically. It also creates an unnecessary bonanza for claimants in states with good economic conditions. There is, in fact, substantial opinion that payment of benefits beyond the duration established by state law should not be the responsibility of the unemployment system.

2. Retain the existing state "trigger."

NAM believes the states should be allowed to determine the duration of benefits without federal intervention and that the imposition of mandated triggers should be modified and eventually eliminated. Efforts to return to the triggering points in previous

law or postpone the modification process already enacted into law has, basically, the same result as a national trigger--it cannot be economically justified and can create an unnecessary bonanza for claimants. The NAM's position on the "trigger" subject has been expressed before. In testimony before the Subcommittee on March 11, 1981, we stated:

> "Federal legislative and administrative action should not infringe upon the rights and ability of the states to administer their system. Federal responsibilities should be limited to assuring that states establish and operate a state unemployment compensation program and to the financing of costs directly related to the administration of such program. Federal responsibilities should not include establishment of any binding standards which preempt the states' formulation and administration of their respective unemployment compensation program."

3. Continue the present system excluding extended benefit claimants when calculating the insured unemployment rate under the extended benefit program.

The inclusion of extended benefit claimants in the "triggering" program produces a result which could create permanent triggering or, at the least, unnecessarily long periods of extended benefits. It is not in the best interest of employers or employees to artificially create a statistical procedure to continue extended

benefits beyond the period of economic upturn. The change in the law excluding extended benefit claimants allows the triggering program to meet the true purpose desired by Congress.

The changes in the trigger provisions last session are estimated to produce a savings of over $7 billion for fiscal years 1982, 1983 and 1984. These savings have little effect on claimants who are truly in need since there is no reduction in benefits for those entitled to payments under their state system. Those who suffer extended unemployment are eligible for benefits under other programs. In addition, many of the claimants collect employer-paid supplemental benefits which, when added to state unemployment benefits, allow for the collection of monies equivalent to "take home" pay for a significant period of time. Payments made after the exhaustion of this initial period should not be the responsibility of employers.

In conclusion, the NAM believes that the provisions enacted with the Omnibus Budget Reconciliation Act of 1981 have placed the UC system on a more equitable and solidly funded basis. The NAM urges that Ways and Means Subcommittee on Public Assistance and Unemployment Compensation retain the cost-saving devises recently put into effect.

STATEMENT OF JOHN L. MELVIN, M.D., PRESIDENT, NATIONAL ASSOCIATION OF REHABILITATION FACILITIES

Mr. Chairman:

This statement is submitted on behalf of the National Association of Rehabilitation Facilities (NARF). NARF is a voluntary member organization with over 700 members. These members are community rehabilitation facilities including rehabilitation hospitals, sheltered workshops and work activity centers. They provide comprehensive rehabilitation services to over 400,000 disabled people annually.

Many of these facilities utilize Title XX funds to provide a vast array of services primarily to mentally retarded and developmentally disabled individuals. My statement addresses the effect the President's FY '83 budget proposal will have on these facilities and these people.

Title XX was originally enacted in 1975. It replaced the then existing federal social services program under Title IV and Title VII of the Social Security Act. The goal of the program was to help a broad range of disadvantaged people achieve self-sufficiency. The program gave states great flexibility in selecting services to be delivered. In order to participate, states had to submit a state plan which set forth the people eligible for services to be delivered and had to meet certain other requirements.

States could elect to serve people from three eligibility categories, all based on their income. The focus was on the poor and the near poor. A broad range of services could be provided. These included counseling, information and referral, family planning, child abuse and neglect, meals on wheels, education and planning, activities of daily living, child care, chorecare for the non-institutionalized, family counseling, transportation, health-related services and socialization services and special services for the mentally retarded, disabled or blind.

Many states used such Title XX funds for services to the deinstitutionalized mentally retarded and disabled, for whom such services are not covered under the rehabilitation program authorized by the Rehabilitation Act of 1973, Medicaid or mental health services.

The Omnibus Budget Reconciliation Act of 1981 amended Title XX. First and most significantly, it lowered the entitlement level to $2.4 billion for FY '82, $2.45 billion for FY '83, and $2.5 billion for FY '84. The entitlement ceiling had been $3.1 billion for FY '82 and $3.3 billion for FY '83. The program was completely rewritten. Funds must now be used to meet five specific goals:

- to help people become or remain economically self-supporting;
- to help people become or remain self-sufficient;
- to protect children and adults who cannot protect themselves from abuse, neglect and exploitation, and to help families stay together;

- to prevent and reduce inappropriate institutional care by making home and community services available; and
- to arrange for appropriate placement and services in an institution when this is in an individual's best interest.

In order to participate in the program, states are still required to submit a plan. However, there are no requirements as in prior law that individuals be served or the basis of income nor is there a requirement for a state match of funds.

The President's FY '83 budget proposal would reduce funding for Title XX from the authorized level of $2.45 billion to $1.974 billion. The Reconciliation Act had already reduced the authorization level for FY '82 to $2.4 billion from the FY '81 level of $2.9 billion.

Therefore, the President's proposal would decrease funding under Title XX by almost $1 billion within two years.

NARF has heard from a number of facility members about the effects the FY '82 budget cuts are having on their programs. The President's FY '83 proposal would only compound in a negative fashion the actions taken to date. Let me give you some highlights:

• One of NARF's state chapters, the Kansas-ARF, has surveyed its members to determine the effect of the FY '82 budget cuts. Programs for the handicapped were cut by $900,000 under Title XX. The state has made every effort to replace these federal dollars with state dollars. However, as a result of these cuts, the facility staffs have been cut and services to individuals have been cut. For example, people are receiving services only two or three days a week, or they are receiving only essential services. In some situations, support services are being provided only if the people can pay for it themselves. The Kansas Association is also seeing people being returned to institutions and falling through the cracks. They are then receiving services from the welfare system, the judicial system or no services at all.

• The Indiana Department of Mental Health, Division of Developmental Disabilities has also done a survey on the impact of FY '82 funding on programs and services serving the developmentally disabled. Based on that survey, the division found that 54% of the reporting agencies would be releasing employees in an effort to reduce operating costs. The Division also reported that agencies were dropping clients from programs in order to meet the budget cuts. 310 clients were dropped from various treatment services, activities for daily living services, adult vocational services, homebound and pre-school services in the first half of FY '82 -- more will be dropped in the last half as well. Another step being taken to meet the budget cuts is changes in existing programs and services. These changes include reducing program hours or the program week,

serving more clients in groups as opposed to one-on-one, serving the same number of clients but reducing the client/staff ratio, reducing the number of clients in a program as noted above, combining staff functions, freezing admissions and attempting to rely on increased use of volunteers.

- A third study on the effect of the budget cuts conducted by United Cerebral Palsy of America (UCPA) showed that program reductions range from 2% to 50%. For example, in Lexington, Kentucky, the program of training parents and para-professionals in the care of their own handicapped children was cut back by 50%. In Columbus, Ohio, as a result of a $180,000 program reduction, 110 disabled adults have been terminated from services. These people are now isolated in their homes with no daily or special day services. An Erie, Pennsylvania, program was closed. This program served 36 handicapped adults.

NARF has also heard anecdotal accounts that reflect the compounded effects of the budget cuts on all programs serving the handicapped which includes the Rehabilitation Act of 1973, Education for All Handicapped Children Act (PL 94-142) and CETA, as well as Title XX.

- State vocational rehabilitation counselors frequently are not referring the most severely handicapped individuals to facilities for services because in order to maximize reduced funding

they presume the client cannot be successfully rehabilitated, even though the Rehabilitation Act requires that an emphasis be placed on serving the most severely handicapped. The result is that these individuals are not referred for rehabilitation services and if they receive any services at all, it is usually under Title XX.

- Over the past ten years, more and more people are being released from state mental hospitals to live in their communities. These people need multiple community-based services including housing, day care, employment, health care and transportation. Title XX funds have been instrumental in aiding the transition and making it successful for many people. It costs considerably fewer dollars to support a person in the community in a group home and to have that person receive services in a community rehabilitation facility than for the state to pay for the person to be institutionalized. For example, in Texas it costs approximately $2,400 per month for a person to be institutionalized, whereas it costs approximately one-fifth that amount per month if the person resides in a community alternative. Unfortunately, as Title XX funds are being cut, many people are being re-institutionalized at greater costs to states since community-based programs are no longer available.

This information is based only on the FY '82 budget cuts. NARF anticipates that the FY '83 cuts will result in a compounded negative effect. The mentally handicapped, elderly and others who benefit from the bulk of the Title XX funds and the community

facilities which deliver these services will bear the brunt of any such cuts -- with long term, greater costs being borne later by states and society as a whole.

We urge the Committee not to accept the President's budget proposal and to fully fund the program at the authorized amount of $2.45 billion. The Title XX authorization was cut by 23% in FY '82 ($3.1 billion vs. $2.4 billion). The President now wants to cut it by an additional 41% from the previously authorized amount of $3.3 billion and 20% from the 1981 Reconciliation Act authorization of $2.45 billion.

NARF further supports enactment of H.R. 5791 introduced by the Chairman which would increase the authorization for the program by $200 million for FY '83 and each of the two succeeding years.

STATEMENT OF THE NATIONAL EMPLOYMENT LAW PROJECT, INC., ANN KOLKER, DIRECTOR, WASHINGTON OFFICE

The National Employment Law Project, Inc. (Project), the Legal Services Corporation national support center specializing in the employment and unemployment problems of the poor, thanks the committee for inviting our comments on the impact of the changes in unemployment insurance law enacted by P.L. 97-35, the Omnibus Reconciliation Act of 1981. On behalf of clients seeking assistance with UI claims, who constitute a steady portion of the case load in field offices, the Project would like to share with the committee some information about the effect of last year's changes on unemployment insurance claimants.

A note of caution before beginning: the data discussed below has been gathered on a sample basis. It is not comprehensive. Data which is released in some states is simply not available in others, and most states which were contacted didn't yet have figures for the most recent months in which national unemployment has reached nine percent. The preliminary data which has been collected however, reveals that the unemployment insurance cutbacks enacted in August, 1981 have already created serious hardship for thousands of jobless

individuals and could jeopardize millions more if changes previously passed, but not yet effective, are not repealed.

At the national level the picture is a sobering one. The Labor Department just announced that the unemployment rate is 9.4% with 10.3 million people out of work, another 5.8 million working part-time because they can't find full-time work and an estimated 1.3 million discouraged workers who have been out of work so long that they aren't even counted in the monthly unemployment rate. High unemployment is so pervasive that 21 states have a rate of over 10% and 33 states are on extended benefits, with the Labor Department projecting that unemployment will continue to increase so that extended benefits will be available in 46 states by the end of the year. No section of the country is immune from this serious situation: while the staggeringly high rates in industrialized states like Michigan (16.1%) and Indiana (13.3%) have been widely publicized, western states such as Idaho and southern states like Alabama, Tennessee, Mississippi and South Carolina are experiencing rates above 10%.

As members of this committee are well aware, for this growing number of unemployed workers, there are fewer unemployment benefits as a result of the cutbacks passed last year. On the basis of estimates prepared by CBO, a recent report for the full Ways and Means Committee projects these losses:

1) the elimination of the National trigger will cost 766,000 persons an average of $1,080 in FY82;

2) the recalculation of the IUR excluding extended benefit recipients will cost over one million unemployed workers an average of $1,185 in lost benefits;

3) the refusal of UI benefits to servicemembers leaving the military voluntarily will exclude 157,000 persons from any UI benefits whatsover;

4) In sum, this year, when unemployment is at its highest rate since the depression, nearly two million people will see their UI benefits delayed, reduced or eliminated altogether because of measures passed last year.

A look at the effect of the 1981 changes in certain states with high unemployment reveals some troubling figures. When the new IUR calculation became operative in the middle of August, 1981 the IUR rate in four of the eight states offering extended benefits dropped below the EB threshold, thus causing the trigger to go off and terminating benefits to thousands of recipients. More specifically, Illinois, on August 8, a week before the new IUR formula became effective, had a 4.8% IUR (plus 122% factor).*/ But on August 22, after the IUR rate was calculated without extended beenfits, the IUR dropped to 3.90% (plus 103%), causing the trigger to go off in mid-September and abruptly dropping over 40,000 recipients, at a time when the unemployment rate in the state was over 8% and rising. The situation in Rhode Island was similar.

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*/ Unless otherwise indicated, all figures are from the Bureau of Labor Statistics, Department of Labor.

Before the IUR formula was changed, extended benefits were on in Rhode Island which had an IUR of 5.87%. But after the change became effective, the IUR dropped to 4.86% causing the trigger to go off in mid-September. West Virginia followed the same pattern. A pre-formula change rate of 6.30% (plus 128%) fell to 5.08% plus 108% (West Virginia doesn't have the straight 5% option in its law), forcing the trigger off in September and dropping benefits for over five thousand recipients. Michigan, often cited as the state which suffered the most from OBRA changes, had a slightly different set of events. When the IUR formula changed the state trigger dropped gradually and finally went off at the end of November, 1981, in spite of the fact that unemployment in that state was 12% and steadily increasing.

Additionally, a comparison of the pre- and post-OBRA IUR rates in states close to the trigger levels reveals a subtle, but equally adverse effect of the formula change. Five states, Alabama, Mississippi, New Jersey, Pennsylvania and Wisconsin had IUR's over 4% and were approaching the 120% factor in early August, 1981. Immediately after the formula changed, the IUR in each state dropped below 4%. This set back in the IUR rate no doubt delayed the onset of extended benefits in each of these states several months beyond the time the trigger would have go on under the old formula. The number of individuals who actually lost benefits in these five stats as a result of the delayed onset of the trigger is difficult to assess. What can be concluded however, is that the IUR change depressed state

trigger levels and caused hardship to many jobless people in these states who either went without extended benefits or had to wait longer until their triggers went on in early 1982 to collect extended benefits.

The depressing effect on state triggers has in some cases had measurable impact on claimants exhausting their regular benefits. In several states where data on exhaustees was available, it can be seen that not only have exhaustions increased dramatically since late 1981, but that this increase occured at a time when actual unemployment was rising, thus leaving exhaustees without benefits when job prospects were decreasing. In Georgia, for example, after holding steady for several months, the number of exhaustees rose from 18,665 in December, 1981 to over 30,000 in March or this year,*/ while the unemployment rate was rising from 7.2% to over 8% during this same time. In Maine, the monthly exhaustions doubled from 1,326 last June to 2,939 in March, while the UI rate also rose from 6.8% to nearly 8.9% in February.**/ Extended benefits went on in Maine at the end of February, which alleviates the situation now. However, the hardship incurred by the unemployed who had neither benefits nor job prospects in the early winter can't be undone. A similar situation can be found in Indiana: In October, 1981 there were 4,301 exhaustees and by February,

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*/ Georgia Employment Security Agency.

**/ Maine Department of Labor.

1982 there were over 8,000. Layoffs reached a record high in Indianna in November, 1981, and throughout this period the UI rate was increasing from 9.9% to 13.3%.*/ The trigger went on the very last day of January so there was relief for some exhaustees. Nevertheless, the despair that the jobless felt without extended benefits, in the face of a 13.6% January unemployment rate must have been profound.

There is one additional area in which the changes in UI law passed last year have begun to hurt claimants; the fund cutbacks and solvency requirements imposed on state UI trust funds have forced some states to tighten eligibility criteria for benefits and/or limited the hearing and appeals process for claimants. In Minnesota for example, in response to financial pressure on the state fund, the state recently increased the weekly earnings necessary to qualify for benefits - a measure that effectively precludes those with the lowest earnings and least secure jobs, from receiving UI benefits. In this state, the 20 weeks of work requirement for EB is expected to eliminate another 10,000 people who qualify for regular benefits from collecting extended benefits, another change that impacts most severely on the marginally employed, who have the most difficult obtaining and holding a job. Attorneys in both Tennessee and Georgia who regularly handle UI cases report that as a result of less money to

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*/ Indiana Employment and Security Division.

support the system, the state has reduced the number of hearing sites, thus forcing claimants to drive very long distances in rural area, or to settle for a telephone hearing. Several states are reporting an increased number of UI appeals, and there is widespread speculation that an increasing number of claims are being denied in order to hold done costs to the funds.

The data outlined above, though incomplete and preliminary, clearly reveals that the UI changes enacted last year have had a harsh impact on claimants, particularly those with the lowest wages and most irregular work patterns. In light of these findings the Project urges that the committee repeal the measures passed last year by favorably reporting out H.R. 5284 and H.R. 5251. There bills would restore the national trigger and reinstate the old IUR formula, which though they could not put dollars in the pockets of the many thousands whose benefits were terminated or delayed, they would insure greater protection for the jobless in the future. The alarmingly high unemployment rate reinforces the case for passing H.R. 5284 which also repeals the increase in the state trigger levels, due to become effective on September 25. The Project is additionally concerned about increasing pressure on the state trust funds resulting from less money and recently enacted solvency requirements, and recommends that the committee consider a variety of measures, including increasing the federal wage base, to ease the demand on states which are experi-

encing both high unemployment and depelted reserves. As unemployment remains high and as more and more states are forced to borrow from the federal government to meet and maintain new solvency requirements, the squeeze on state funds will become a growing problem. The Project believes that to prevent states from simply tightening eligibility and reducing benefits, the committee should examine this problem in depth and provide some solutions which will enable states to meet solvency standards without making claimants pay the price. Finally, the Project believes that the serious unemployment problem facing many states as described above, makes it essential that the committee give serious consideration to H.R. 6085 which provides 13 additional weeks of federally financed benefits to those who have exhausted their regular and extended benefits. Though the cost is awesome and the Project is mindful of the responsibility which committee members have vis-a-vis the federal deficit, we believe that the very high unemployment levels in many states, make it vital that this committee report out some kind of supplemental benefit program. The Project is concerned that the cost to this country of not providing additional aid to the jobless in an economy still experiencing failing businesses, lay-offs and high unemployment will be greater in the long run than the cost of continued assistance to the long term unemployed.

Respectfully submitted,

STATEMENT OF JAMES GASHEL, DIRECTOR OF GOVERNMENT AFFAIRS, NATIONAL FEDERATION OF THE BLIND

Mr. Chairman, my name is James Gashel. I am Director of Governmental Affairs for the National Federation of the Blind (NFB). My address is 1800 Johnson Street, Baltimore, Maryland 21230. I am very pleased to have the opportunity to appear before this subcommittee today.

First, I want to say a few words about the NFB and our general interest in the Supplemental Security Income (SSI) issues now pending and announced as the subject matter for this hearing. We are an organization of more than 50,000 blind people who live in every state and the District of Columbia. We have a state affiliate in each state and D.C., and local chapters in most sizable population areas. We are an organization "of" the blind. It is important to understand and appreciate the distinction between NFB, on the one hand, and the service-providing agencies "for" the blind, on the other.

NFB is the blind speaking for themselves. The SSI program includes "the blind" as one of the three categories of beneficiaries who may be eligible under Title XVI of the Social Security Act. Blindness is defined in the Act, and it is estimated that approximately 475,000 people in the United States have visual limitations sufficient to be considered "blind" under this definition. Of this number, only 80,000 (or slightly less) are actually eligible for SSI, after the application of income and resources limitations.

Mr. Chairman, on behalf of these citizens, we are here to give you our views on several pending SSI proposals, including those offered by the Administration in the President's Budget for Fiscal Year 1983 and one of the SSI bills (H.R. 5509) referred to this Subcommittee. These changes, if made, would potentially affect the 80,000 blind persons now

receiving monthly SSI checks plus the thousands of others who will become eligible at some point in the future. We oppose modifying the SSI program in the manner suggested by the Administration. We support enactment of H.R. 5509, introduced by The Honorable William Brodhead. I shall now proceed to highlight our specific objections to the Administration's plans, along with some concluding remarks about the need for passing the bill sponsored by Mr. Brodhead.

(1) Proposed elimination of the initial $20 income disregard, to take effect for persons who become eligible after January 1, 1983: The Administration promotes this as a mechanism for more closely relating benefits to the current income and circumstances of beneficiaries, but it is hard to see how this can be. Our objection rests in the fact that the $20 income disregard serves as an incentive for recipients to acquire access to other sources of income, thus reducing the need for SSI payments. This is especially true of earned income.

The principle of exempt earnings is sound and should be protected. This serves as a threshold inducement for recipients to attempt work. The amount of $20 plus $65 of earned income which can be exempt was placed in Title XVI of the Social Security Act in 1972 and has not been revised since. Rather than reducing the income exclusion, it should be indexed to account for inflation. The value of the original $20 disregard has dropped by more than half in terms of 1972 dollars. Under the circumstances, the Administration's proposal to eliminate this exemption cannot be justified as a budgetary consideration. On the other hand, the exemption continues to have value for individual SSI recipients and SSI couples.

(2) Proposed prorating of the first month's SSI benefit: This plan is a cost-cutting measure, pure and simple. The argument to support it is,

again, the idea of more closely relating benefits to current income and circumstances. The essence of this proposal is to withhold SSI eligibility for any day prior to the day of actual application.

Under current law, an SSI check is payable based on a monthly calculation of income and resources, and it is presumed that the applicant is in need for the entire month. This is a logical and reasonable presumption. Yet, the Administration now wants to change the presumption, without any attempt to determine an applicant's prior need during the month of application. We think this draws the line too rigidly and unreasonably. Evaluating an SSI applicant's income and resources situation on the basis of a monthly accounting period is not unreasonable. After all, if it is fair to make a closer tie between financial need and payment of benefits, isn't it equally fair to pay retroactive benefits for any day of eligibility, prior to or after the date of application? We could certainly argue that SSI benefits should be payable whenever the conditions of eligibility are met, regardless of the date of application, but. we are content to live with the present law.

(3) Proposed rounding of SSI maximum monthly payment and actual benefits to the next lower dollar: This is promoted on the basis of program simplification. It is hard to see how rounding to the next lower dollar is any more simple than rounding to the next dollar. In fact, why is rounding to the next lower dollar more simple than to the next higher dollar? The point is that this is yet another cost-cutting measure which bears no real relationship to program simplification. Actually, we favor the idea of rounding to the next higher dollar, a plan which would be equally as simple as the Administration's proposal. We have no objection to rounding for program simplification purposes. Rounding, however, should not be done to the disadvantage of beneficiaries.

(4) Proposed elimination of the mandatory pass-through requirement: The argument for abandoning the mandatory pass-through policy is that states should have greater flexibility in determining the extent of their state supplementation programs. We believe that Congress wisely installed the pass-through provision which first took effect in July, 1977, with the cost of living increase in SSI benefits. The question comes down to whether you consider SSI to be a federal or a state program. If Congress determines that SSI is a federal program, then Congress should certainly insist that all beneficiaries should receive the full benefit of federal cost of living increases. The current pass-through requirement approaches this standard, while preserving some flexibility for the states to reallocate state resources. Eliminating the pass-through requirement would once again permit states to absorb federal cost of living increases, regardless of the effect on beneficiaries. This would be to the benefit of the states but not necessarily to those in need. Current law corrected this inequity which, from 1974 to 1977, existed in the SSI program. The Administration's proposal seeks help for states which will be provided at the expense of needy individuals and couples. Thus, it is inconsistent with the purposes of SSI.

(5) Alternative indexing plans: The President's Budget for Fiscal Year 1983 does not seek a change in the annual indexing of SSI benefits. However, rumors persist that cost of living raises in Social Security programs may be withheld or modified as one means of reducing the federal deficit. We oppose this for obvious reasons. Few federal programs are so closely tied to an individual's or a couple's subsistence. It is one thing to cut federal programs. We are not necessarily opposed to cuts in some of the social services programs. However, income maintenance for SSI recipients who, by definition, are poor, should be preserved.

(6) H.R. 5509 -- Proposed limitation on overpayment recovery rate, introduced by Mr. Brodhead: We support this bill as a matter of equity and good sense. Under this legislation, the recovery rate could not be greater than 25% of the benefit amount. In the past, it has been our experience that the Social Security Administration has been reasonable in negotiating recovery rates for SSI overpayments. However, more recently we have begun to hear of cases where SSI checks are being suspended entirely until full recovery is satisfied. In fact, this appears to be a new Social Security Administration policy. Under the circumstances, a safeguard is needed to protect beneficiaries against over zealous Social Security collection agents.

Mr. Chairman, the foregoing comments represent our position with respect to the SSI issues now pending before this Subcommittee. We appreciate the opportunity to share our thoughts with you on behalf of the blind citizens who receive SSI and those who will become entitled. On balance, we are quite positive about federal SSI policy and the conduct of the program by the Social Security Administration. However, we do have serious objections to the 1983 budget proposals, as I have indicated. All we ask is that you bear these in mind in evaluating the Administration's plans.

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ELEANOR HOLMES NORTON
PROFESSOR OF LAW

May 11, 1982

Representative Harold E. Ford
Chairman
Subcommittee on Public Assistance
and Unemployment Compensation
House of Representatives
Washington, D.C. 20515

Re: H.R. 5904

Dear Chairman Ford:

I would like to submit this letter and the attached statement for inclusion in the record of your important hearings held during the week of April 19, 1982. I was unable to testify personally because of out-of-town commitments but have long urged alternative approaches to lay-offs as a way of mitigating the harsh effects of unemployment on all workers and particularly on minority and female workers, who are disproportionably effected by traditional first in-last out lay-off policies. Therefore I would like to submit this letter and the attached materials for the record in my capacity as a board member of the National Urban Coalition, the first national organization to investigate and champion this approach and in my capacity as former Chairperson of the Equal Employment Opportunity Commission. I am now a Professor of Law at Georgetown University Law Center, where I teach and do research in labor-related fields, including equal employment areas.

I urge this Subcommittee to report out H.R. 5904 at the earliest possible time. I testified in favor of a similar bill at hearings of this Subcommittee on June 26, 1982 and am attaching the testimony I gave at that time.

The need for this bill has become urgent. H.R. 5094 is essentially a very modest, risk-free experimental and study approach to short-time compensation. Yet at least three states already have enacted full-fledged programs providing for unemployment benefits to supplement partially unemployed workers. Had the study authorized by H.R. 5904 been undertaken two years ago, this approach might well already be having national impact.

The urgency of the bill is best underscored by the current unemployment crisis, by the sparcity of even traditional remedies, and by the almost total absence of new approaches to chronic unemployment in this country. The most recent statistics on unemployment are devastating, the highest since 1941. But a comparison of job-losers between March 1981, and March 1982, serves to point up the critical need for action to discourage lay-offs and substitute more productive and equitable ways to cut labor costs. In March 1981, the total number of job-losers was 4.4 million. A year later the total number had grown precipitously to 6.2 million. During the same 12 month period, black job-losers grew from 860,000 to 1.2 million, Hispanic job losers from 319,000 to 493,000 and women job-losers from 1.3 million to 2 million.

The country can no longer live with statistics of this magnitude. H. R. 5904 will not by itself end this trend. But it is historic legislation that can help quide the Congress toward new and more diverse approaches to unemployment remedies. The remedies of the New Deal were indeed historic and remain sound today, but their special genius lies in their organic quality, which allows us to expand upon them without repudiating them, indeed while steadfastly maintaining them.

The approach of H.R. 5904 offers another important asset. It allows us to mitigate the harsh effects of lay-offs by order of seniority without a collision between the rights of senior white male workers and the rights of minority and female workers, whose low seniority most often derives from past exclusionary employer practices. The senior white male workers of course had nothing to do with and bear no responsibility for the prior exclusionary practices. Therefore H. R. 5904 provides a fair way to rectify past injustices. Short-time compensation will allow minorities and women to remain attached to their jobs because a total lay-off does not occur and seniority may continue to be accumulated. At the same time white male workers maintain their jobs and seniority under short-time compensation. Many workers welcome this interim period of a four-day week and the benefits to equal employment opportunity are enormous. Indeed, this is the first approach to undercut the harmful effects of lay-offs on affirmative action. That would be reason enough to report out and pass H. R. 5904.

This bill enjoys an unusually broad spectrum of support. Rights groups and labor groups, who have often been in disagreement over lay-off policies, have both embraced the bill and in addition have been joined by business groups. Such cohesion from sectors so diverse is its own comment on the wisdom of the approach embodied in H. R. 5904. I hope you will take this strong and broad support as a mandate to report out H. R. 5904 and to work hard for its passage on the floor of the House.

I greatly appreciate your courtesy in accepting this letter and the attached materials for inclusion in your record. And may I commend you, Mr. Chairman, and the Committee for your path-breaking work on the difficult problems of public assistance and unemployment compensation confronting our nation today.

Sincerely yours,

Eleanor Holmes Norton

Eleanor Holmes Norton

EHN/lm
Attachment

Thank you very much.

Our next witness is Eleanor Holmes Norton, Chair, Equal Employment Opportunity Commission. Mrs. Norton, we are pleased to welcome you to the committee. If you have a prepared statement you would like to submit for the record and summarize, you may. Please proceed.

STATEMENT OF ELEANOR HOLMES NORTON, CHAIR, EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Mrs. NORTON. Thank you, Mr. Chairman and members of the committee. I will summarize my statement, reading parts of it and summarizing other parts of it.

I would like to begin, Mr. Chairman, by personally thanking you for placing H.R. 7529 among the bills on unemployment compensation to be considered here this morning. Remedies developed largely out of the Great Depression continue to be the major, indeed almost the only response to unemployment in this country. As critical as these remedies are, it has been amply demonstrated that they cannot take us the full way out of today's more complicated economic problems.

While full employment policy is the only acceptable answer to unemployment in the long run, we believe that the country has an obligation to seek short-term remedies for unemployment.

Compensation for full unemployment is an important remedy that has long been accepted as the way to cushion joblessness. However, short-term unemployment compensation, allowing the use of unemployment insurance to promote work sharing so that a worker on a shortened work week would be assisted on the day he or she is without work, allows us to put a premium on working instead of on unemployment. Thus work sharing augmented by unemployment insurance appears to be one of the most promising and practical alternatives to unemployment.

Our interest in seeking alternatives to layoffs as a means of reducing unemployment was originally stimulated by our concern for the effects of the economy on the employment status of minorities and women. These groups have always suffered disproportionately when employers resorted to layoffs as a cost-cutting measure.

None of the traditional remedies has succeeded in reducing the gap between the unemployment rate for many of these groups, especially minorities who have had a persistently high rate of unemployment regardless of the level of prosperity and regardless of the use of the traditional unemployment remedies.

I want to concentrate briefly on this gap. It is the gap which is most shameful—the fact that we are willing, consistently willing, to tolerate unemployment for black and brown people which are twice as high as for white people. None of the traditional remedies speaks to reducing this gap.

Essentially what we say to black and brown people is: We will try to work up some public service jobs for you when you are out of work. And this is critical; this is important. But the fact is that, if Americans are to be out of work, none of us should be satisfied until we are all out of work in approximately the same ratio to our numbers, not some of us out of work in much greater proportions than others. The policy of

"last hired, first fired" takes a special toll of those who have only recently gained access to employment opportunities traditionally barred to them by discrimination.

In the past few years, widespread use of affirmative action programs to correct illegal exclusion has led to hiring and promotion for significant numbers of women and minorities in many industries. The Labor Department estimates, for example, that the number of employed adult women grew by approximately 6.4 million persons between 1975 and 1979, which represents a 21.1-percent increase over that period. During the same period, the number of minorities who were employed increased by about 1.8 million, or some 20.4 percent.

At EEOC I believe our statistics show that in the past 4 years minorities and women got about two-thirds of all of the brandnew jobs created by the economy. Many of these will be jobs with low seniority and not all of them will be jobs high on the pay scale, but when layoffs come it is these new jobholders who are without work in very great numbers.

The Nation's unemployment rate for May stands at 7.8 percent with 1.5 million layoffs in April, one-half million more than for April 1979. These economic conditions have disproportionately affected women and minorities. As you are aware, today's minority unemployment rate is staggering, almost 15 percent.

Minorities and often women have historically borne a much greater burden during economic turndowns. For example, in September 1974, blacks held 10.9 percent of all jobs. During the next 7 months, they experienced more than 21.7 percent of the 1974 recession-induced unemployment.

In May of 1980, blacks were laid off at almost twice the rate of whites (1.3 percent for blacks, 0.8 percent for whites). As we are aware, minorities and women generally have entered the employment system later than white males and thus become the first to feel the impact of any loss of jobs.

The remedy that you are today exploring is uniquely suited to problems by offering a degree of job security to those who are new to the employment picture because discriminatory exclusion has barred the hiring of such individuals from such groups in the past.

I want to make clear, Mr. Chairman, that we see no problem with ordinary use of seniority so long as we become creative and try to devise ways to help minorities and women get the seniority that would let them also have that kind of job security. This bill would have the important impact of keeping minorities and women attached to their jobs, acquiring seniority so that when a layoff does become necessary they will not be laid off in disproportionate numbers.

Unless they can keep their attachment to the work force, they will always be laid off disproportionately. This is a cycle that is generational and a cycle that we have tolerated for generations. But it is a cycle we need not tolerate if we more in the direction of the bill before us.

Work-sharing supplemented by unemployment insurance has been widely used in other industrial nations. And it is most interesting that our economic partners in Europe and Japan, whose economies are most similar to our own, make almost wholesale use of work-sharing. The

United States is two generations late in trying what European nations have tried and successfully used for some time.

Germany, Austria, Belgium, Denmark, France, Italy, Luxembourg, and the Netherlands are among the Western European nations which resorted to work-sharing programs during recent recessions. Most enjoy higher productivity growth rates than we. National schemes have mostly taken the form of benefits for those working less than a standard number of hours per week. As a result, European workers have come to expect their jobs to be maintained through prosperous periods as well as recessionary ones.

In Japan, employers who implement systems of nonduty allowances during temporary layoffs can be granted a subsidy to cover a part of the allowance.

In the United States, while a number of unions have gained collective bargaining provisions calling for a reduction in hours for all workers before any layoffs are permitted, the approach to recessions is traditionally to resort to layoff.

It should be emphasized that one-third of all of the union contracts in the United States actually contain clauses which permit work-sharing to occur. We believe that the reason work sharing has not occurred more often is because there is no way to compensate it at all. In a way, unemployment compensation discriminates against existing work-sharing provisions by virtually requiring that total layoffs occur before any compensation can be allowed.

It is important to understand that this bill is primarily seeking a demonstration project and requires a very limited expenditure of funds. The experience in California alone, about which you will be hearing later, indicates that this concept is worthy of congressional support.

When you add to the California program the institutionalized use of work-sharing in Europe, it would seem irresponsible not to begin such an exploration on the national level. Given the effect not only on minorities and women, but on the rest of the work force as well, and the very limited expenditure of funds that would be required by this bill, such a demonstration project is cearly worthy of support.

We recognize that work-sharing is not a substitute for fiscal and monetary actions which curb the business cycle; nor can it take the place of employment and training programs to remedy structural unemployment. It is a useful and productive tool for maintaining affirmative action progress and the dignity of all American workers. Work-sharing deserves your support.

[The prepared statement follows:]

STATEMENT OF ELEANOR HOLMES NORTON, CHAIR, EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

Mr. Chairman and members of the subcommittee, I would like to commend you for convening these hearings on H.R. 7529, a bill providing for "Short-time Unemployment Compensation," a concept which represents a significant and innovative approach to a serious economic problem facing this nation. Congressional interest in mitigating the dramatic and frightening impact of layoffs should be given serious and immediate attention.

The American economy stands at a most critical point in our nation's history. The character of the economy appears to have undergone a change that is both

a function of significant international developments and accumulated national problems.

Remedies developed largely out of the Great Depression continue to be a major response to this problem. As critical as these remedies are, it has been amply demonstrated that they cannot take us the full way out of today's more complicated economic problems.

While full employment policy is the only acceptable answer to unemployment in the long run, we believe that the country has an obligation to seek short-term remedies for unemployment. Full unemployment compensation is an important remedy that has long been accepted as the way to cushion joblessness. Short time unemployment compensation allows the use of unemployment insurance to promote work-sharing so that a worker on a shortened work week would be assisted on the day he or she is without work, thereby putting a premium on working instead of unemployment. Thus work-sharing augmented with unemployment insurance appears to be one of the most promising and practical alternatives to unemployment.

Our interest in seking alternatives to layoffs as a means of reducing unemployment was originally stimulated by our concern for the effects of the economy on the employment status of minorities and women. These groups have always suffered disproportionately when employers resorted to layoffs as a cost-cutting measure.

None of the traditional remedies has succeeded in reducing the gap between the unemployment rate for many of these groups, especially minorities who have had a persistently high rate of unemployment, regardless of the level of prosperity and regardless of the use of the traditional unemployment remedies. The policy of "last hired, first fired" takes a special toll on those who have only recently gained access to employment opportunities traditionally barred to them by discrimination. In the past few years, widespread use of affirmative-action programs to correct illegal exclusion has led to hiring and promotion for significant numbers of women and minorities in many industries. The Labor Department estimates, for example, that the number of employed, adult women grew by approximately 6.4 million persons between 1975 and 1979, which represents a 21.1 percent increase over the period. During the same period the number of minorities who were employed increased by about 1.8 million or some 20.4 percent.

The nation's unemployment rate for May stands at 7.8 percent with 1.5 million layoffs in April, one half million more than for April 1979. These economic conditions have disproportionately affected women and minorities.

Minorities and often women have historically borne a much greater burden from economic turndown. For example, in September of 1974, blacks held 10.9 percent of all jobs. During the next 7 months they experienced more than 21.7 percent of the 1974 recession—induced unemployment.

In May of 1980, blacks were laid off as a percent of employment at almost twice the rate of whites (1.3% for blacks, .8% for whites). As we are aware minorities and women generally have entered the employment system later than white males, and thus become the first to feel the impact of any loss of jobs. The remedy, that you are today exploring, is uniquely suited to problems by offering a degree of job security to those who are new to the employment picture because discriminatory exclusion has barred the hiring of such individuals from such groups in the past.

Our interest in layoff alternatives, however goes beyond civil rights concerns, because alternatives to layoffs, especially work-sharing, can be a critical short-term remedy for unemployment for workers of all backgrounds. The burden of extended unemployment causes reduced levels of living, such as the loss of job-related health and other benefits, the inability to meet household commitments such as mortgage and car payments and all the other personal and family devastations that occur when incomes are severely limited.

Furthermore, the retaining of otherwise unemployed workers on the payroll may well bolster consumer confidence. Beyond the immediate economic advantages, work-sharing that prevents unempolyment will have inestimable social benefits. It is impossible to assess just how costly the interruption of employment can be, especially in large cities with a concentration of ghetto conditions. We see the devastation caused by unemployment all around us, but we can only speculate on the ultimate consequences and costs—social and economic—that the dislocation caused by unemployment can have on crime, family stability, the social development of children, drug addiction, and other social problems. We will never be able to allocate sufficient resources to deal with such problems if

we do not move to ameliorate conditions that create them. A minimal investment now in maintaining the employment of workers can save us the incalculable cost of social pathology that often has its roots in high unemployment rates.

Work-sharing supplemented by unemployment insurance has been widely used in other industrial nations. Germany, Austria, Belgium, Denmark, France, Italy, Luxembourg and the Netherlands, are among the Western European countries resorting to work-sharing programs during recent recessions. Most enjoy higher productivity growth rates than we. The national schemes have mostly taken the form of benefits for those working less than a standard number of hours per week. As a result, European workers have come to expect their jobs to be maintained through prosperous periods as well as recessionary ones. In Japan, employers who implement systems of non-duty allowances during temporary layoffs can be granted a subsidy to cover a part of the allowance.

In the United States, while a number of unions have gained collective bargaining provisions calling for a reduction in hours for all workers before any layoffs are permitted, the approach to recessions is traditionally to resort to layoff. California is the first state to enact a law adopting a short-time compensation program which encourages work-sharing as an alternative to layoffs. The law was passed in 1978. This program was originally designed to ease the impact of the massive government layoffs expected after the passage of Proposition 13. While few government layoffs materialized, business now faced with a deepening recession, is beginning to take advantage of this program. By the end of March, almost 600 companies and 12,500 workers have participated according to the state-agency which operates the program.

The State also reports that the program is not costing any extra money. Instead, fewer workers are drawing full-time unemployment benefits and more workers are collecting partial compensation. Further, fewer workers are facing the trauma of full-time unemployment.

This bill provides for a pilot to explore a creative and significant alternative to layoffs. Such an alternative could help reduce the staggering effect layoffs have on all workers, their families and communities. It also provides an opportunity for minorities and women to continue to accrue seniority in positions to which they have only recently gained access.

It is important to recognize that this bill is primarily seeking a demonstration project that requires a limited expenditure of funds. The experience in California alone indicates that this concept is worthy of support. When you add to the California project the wholesale use of the idea in Europe, it would seem irresponsible not to begin such an exploration on a national level. Given the positive effect not only on minorities and women but on the rest of the workforce as well, and the limited expenditure of funds, such a demonstration project is clearly worthy of support.

We recognize that work-sharing is not a substitute for fiscal and monetary actions which curb the business cycle; nor can it take the place of employment and training programs to remedy structural unemployment. It is a useful and productive tool for maintaining affirmative action progress and the dignity of all American workers. Work-sharing deserves support.

Mr. CORMAN. Thank you. Mr. Rangel.

Mr. RANGEL. Thank you. It is the first time I have heard from you personally but certainly your idea has been floating around the House of Representatives, and I have been looking forward to hearing your testimony on this

Why do we need a demonstration? First, why do we need legislation? Any State can do this now and California, I understand, has done it.

Mrs. NORTON. Yes; California, prompted by the proposition 13 experience, in fact did take some leadership here. And any State could do so. It does seem clear, though, that this is the kind of breakaway from normal economic policy that demands Federal example and initiative.

Where the experience would, in fact, affect all States in the same way and especially considering the traditional Federal leadership on unemployment compensation, it would appear to be wise to allow the kind of approach that would be mandated by the Schroeder bill—that is,

the setting up of demonstration projects to encourage the States to experiment rather than simply waiting and hoping that somehow the States will, on their own, take leadership in an area which is very new and unfamiliar to them.

California deserves a lot of credit in the absence of national examples, for moving out front on this issue. But I note they were motivated by what they thought was going to be a very severe economic turndown in their State. But I think that other States would get just such encouragement from the bill that is before you today.

Mr. RANGEL. What could the Federal Government do to provide incentives for the State to try this out? In New York I would be concerned as to how the industry would want to handle its own problem. I would be concerned whether it is done equitably and fairly in terms of who is laid off or whether it is a 4-day week or whether it is a 2-week layoff. However they would work out their own internal problems, as a legislator and politician, I would want to make certain that neither the worker nor the employer was penalized for trying to work out a better system to spread the unemployment, if you will.

And I have no experience at all with the California project. I would have to know, before I could support the legislation, as to whether or not we would be legislating employers to encourage part-time employment, as to whether or not there would be a financial contribution by the Federal Government toward unemployment compensation that would encourage employers to leave the full-time employment because they could receive financial benefits from a part-time basis.

We on the Ways and Means Committee are plagued with employer and employee contracts that to you and me on the surface look just like any mass employee-employer relationship and yet we find that accountants and lawyers get together and find out how much it really costs under one system to hire somebody and how much it may cost under another system to have them independent contractors. And whatever you label them is really a tax term.

So what I am asking is, have there been any studies made already on the California part-time employment program?

Mrs. NORTON. Yes; Congressman Rangel; I think the fact that we have now a little more than a year of experience in California means that the Congress isn't being asked to buy a pig-in-a-poke here, even though I do think that if anybody has the responsibility for encouraging responsible experimentation in this area, it is the Congress. National leadership here is important and I think that encouragement on the national level, with the kind of controlled demonstration projects that would prevent abuse and allow study would indeed provide answers to the concerns you have raised.

I believe they are legitimate concerns. I believe that the only approach to them is to have a controlled experiment instead of going fully into work-sharing, which, I must confess, on a personal level I would prefer. I come from the same part of the country as you do, Mr. Rangel, and I think many people in Harlem prefer that whole hog approach, too, to the awful joblessness in areas of the cities like that. But I can understand that, in the absence of broad work-sharing experience in this country thus far, Congressman, that it might be responsible to begin with a demonstration project.

Mr. RANGEL. What could we do to encourage them to try this apparently more equitable way to lay off under the demonstration?

Mrs. NORTON. Under the bill, the Secretary of Labor would be empowered to set up one or more demonstration projects There would be $10 million, over a 3-year period, authorized by under this bill——

Mr. RANGEL. Wouldn't that mean that we would have to have the States legislatively revise their unemployment compensation program?

Mrs. NORTON. There would probably be a need for very slight revisions in State laws Most State laws require you to be out of work a week before you can receive unemployment insurance. The revision would allow you to be out of work as little as 1 day. So if you were put on a 4-day work week, you could receive unemployment insurance for that day off.

The amount of money for the unemployment insurance would be no greater than if the worker were laid off for the number of weeks he is entitled to. That is another feature of this bill that would make it attractive, that no greater expenditure of State or Federal funds would be required.

Mr. RANGEL. Mr. Rousselot.

Mr. ROUSSELOT. Thank you for your comments on this bill by our colleague Congresswoman Schroeder.

My understanding is that California is supposed to complete its evaluation in late 1981. Do you have any insight as to how this evaluation is coming along or should we wait to ask Mr Green?

Mrs. NORTON. I think you should wait for details, although we have perhaps some track of it.

Mr. ROUSSELOT. You monitor it?

Mrs. NORTON. No; we have not been monitoring it on a regular professional basis, but we have been kept informed as to how it was proceeding and we noted that it proceeded early with few companies and unions involved and picked up as the economy got worse in California.

All the reports we have had have been very encouraging, encouraging enough so that I would think that, given what is the clear success of that experiment, we ought to, in the middle of this kind of recession, be willing to undertake such an experiment on the national level.

Mr. ROUSSELOT. What I am saying is that I am not sure we want to wait until late 1981. On the basis of the evaluation that you have received, other than just saying it is good, can you be a little more specific as to how the numbers were increased, who was willing to participate, et cetera, and why that did occur?

Mrs. NORTON. I think I ought to let California speak to that in a more detailed fashion because we don't have the details and statistics ourselves. I do believe that there has been enough information, however, accumulated under the California experience to give more than ample guidance to the Congress if it would want to set up what would also be only a demonstration program. The Congress is not being asked to authorize the kind of use of work sharing that we find in virtually all European countries and Japan. It is being asked for only the smallest kind of work-sharing initiative on the national level. That, it seems to me, is not a great deal to ask.

Mr. ROUSSELOT. Maybe we should have you back after California

comes up with their evaluation on report next year to see what your evaluation is.

Mrs. NORTON. Because these 2-year dates and 3-year dates are always projected at the beginning of an endeavor, and generally require revision during the project, I feel that California's experience so far has been positive enough to warrant similar demonstrations. I think you will be encouraged by it as well when you hear from them today.

Mr. ROUSSELOT. Thank you, Mr. Chairman.

Mr. CORMAN. Mr. Brodhead.

Mr. BRODHEAD. Mrs. Norton, I am delighted that you are before the committee. I have heard many good things about you and your work, so I am pleased to have an opportunity to see you face to face.

I was much taken by your testimony about the devastating impact of unemployment in the inner cities and on the black and brown communities of America. I think it gives me a greater sense of urgency in trying to solve the problem. I thank you. Thank you, Mr. Chairman.

Mr. CORMAN. Mrs. Norton, did you testify before the Cohen Commission that is studying unemployment insurance?

Mrs. NORTON. I did not.

Mr. CORMAN. Did anyone from EEOC testify before the National Commission on Unemployment Compensation?

Mrs. NORTON. I do not believe that anybody from my commission testified.

Mr. CORMAN. I anticipate that the National Commission's findings might lay a foundation for some major changes in unemployment compensation in the next Congress. I wish they'd had the advantage of your testimony. But, it is late, they are about finished with their work. We will remember you, though.

Mrs. NORTON. I do happen to know that the Cohen Commission has looked at this idea. I don't know where they stand on it.

Mr. CORMAN. It seems to me that over the long haul we just have to anticipate shorter work weeks for full salary. It has been the tradition in this country. We have moved from 12 hours a day and 7 days a week and cut that back to 6 days a week and now we are down to 5 days a week and 8 hours a day. Obviously we still do not need our total labor force the way we presently structure our economy.

So I assume we would be moving toward shorter work weeks. We appreciate your testimony very much.

We would like to welcome our colleague, Congresswoman Schroeder from Colorado, who is the author of H.R. 7529 and a great advocate of that approach.

UNITED STATES CATHOLIC CONFERENCE
Department of Social Development and World Peace
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Office of the Secretary

May 7, 1982

The Honorable Harold E. Ford, Chairman
Subcommittee on Public Assistance and
Unemployment Compensation
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Representative Ford:

The United States Catholic Conference, the social policy arm of the American Catholic Bishops, welcomes this opportunity to comment on the proposed changes in the Aid to Families with Dependent Children program, A.F.D.C., which are part of the 1983 federal budget proposals.

We oppose additional cuts in entitlement programs which impact on the poor and low-income people. On that basis, we find the proposed AFDC cutbacks for 1983 to be unacceptable.

Our general concerns about the proposed cuts in entitlement programs were expressed by Bishop Joseph Sullivan of Brooklyn in a statement before the Task Force on Entitlements, Uncontrollables and Indexing of the House Budget Committee. I am submitting a copy of that testimony for your own committee's record. Briefly, Bishop Sullivan argued that the poor have suffered enough. They were affected severely by the FY 1982 cuts and they bore an unfair portion of the budget reductions. They should not be asked to bear the burden of the additional cuts in AFDC, Food Stamps and Medicaid proposed for FY 1983.

Our Catholic tradition holds that all people have a right, an entitlement, to the basic necessities of life, such as income, food, housing and health care. When these basic needs go unmet, the government has the ultimate responsibility to intervene to insure that those needs are met. This obligation is even stronger in difficult economic times such as we are now experiencing.

Because of these beliefs, the Catholic Conference opposes cutbacks proposed for AFDC in FY 1983. Several of them stand out as particularly onerous. For example, one would require states to establish work relief programs. In such a program persons likely would be required to participate without regard to individual situations in which the needs of families are considered. It is also questionable if there would be guarantees that the work situation would provide training and experience based on the individual's needs and circumstances. In another proposal, applicants would be required to search for a job and demonstrate that they have exhausted possible private sector employment as a source of income before the family could start to receive assistance. Even if the family is in dire economic need at the time of application no immediate assistance would be made available until the application is approved. Based on our knowledge, people

usually try to make do on their own and apply for assistance when their resources are depleted. If a mother is forced to search for a job before receiving the needed help, how can she pay for the necessities related to a job search such as suitable clothing and child care?

Still another proposal would appear to reduce the level of benefits available where a family shares a household with other persons. Currently financial assistance from the other person in the household is counted in calculating the benefits. Although this proposed change is not clear, we would oppose it if its purpose and thrust are to reduce available benefits even where the other person is not contributing any financial assistance to the household. Because of high rents and the trend of landlords not to rent to families with children, poor families are at times forced to share households. This proposal would punish families for their living situation, one about which they probably had little choice. In addition, when the youngest child in the AFDC family reaches sixteen years of age, the parent would no longer be eligible for assistance and would be required to seek employment. Often a parent is very much needed at home during that period of a youth's development. This type of mandatory requirement does not take into consideration the individual situation in which families might find themselves.

Some of the other proposals such as the State Administrative Block Grant and the discontinuing of the federal match for erroneous payments in excess of three percent, would mean a loss of funds to the state, a loss which would probably be passed on to the recipients in the form of reduced benefits. We find the above approaches to be incompatible with the dignity that should be afforded to all people regardless of their economic situation.

I also wish to note that the Administration has proposed that the responsibility for AFDC programs be returned to the states. The Catholic Conference opposes that approach and endorses the concept of a national income assistance program primarily funded by the federal government. Such an approach is necessary to assure the needed benefit levels, provide greater uniformity of assistance levels across the country, and to provide sufficient resources needed to ensure the stability of the program.

In closing I would like to point out that the discussion on the proposed cutbacks and changes in the AFDC program is not simply about numbers, dollars and programs. It is about human beings. It is about American families and whether or not they will have enough money on which to survive. The real issue is human dignity. I urge you to keep that in the forefront of your discussions as you carry out your responsibilities in the coming months.

Sincerely,

(Rev. Msgr.) Francis J. Lally

Enclosure

FJL:mh

Statement of the United States Catholic Conference and the National Conference of Catholic Charities, Presented by Most Reverend Joseph M. Sullivan, M.S.W. M.P.A., Auxiliary Bishop of Brooklyn, Before the Task Force on Entitlements, Uncontrollables, and Indexing, House Committee on the Budget

Mr. Chairman, I am Bishop Joseph Sullivan of Brooklyn, New York. I am pleased to appear before you on behalf of the United States Catholic Conference, which is the national social action arm of the Roman Catholic Bishops and on behalf of the National Conference of Catholic Charities, which represents the largest network of voluntary providers of social services in this nation. These two institutions bring to your discussions two important resources: (1) a rich heritage of social teaching on human rights; and (2) a wide range of direct experiences in providing for the needs of the poor in this country. From this perspective, I would like to suggest two points for your consideration: (1) that the impact of last year's budget cuts has already been so severe that voluntary agencies have nowhere near the capacity to take up the slack; and (2) that, consistent with the Catholic Church's social teaching, we strongly believe that, when other social institutions are unable to do so, the government has the responsibility to ensure that the basic needs of all the citizens are met. Therefore, we believe that additional entitlement cuts proposed for Fiscal Year 1983 should be rejected.

I speak this morning not as an economist or a policy technician, but as one concerned about the moral dimensions of federal budget policy, and who has had extensive experience in the administration of human service programs. I am here to share the experience gained from my Church's ministry among the poor and to voice its conviction about human rights and about the essential role that government has to play in protecting these rights.

I am aware of the size and complexity of the economic and budgetary choices that confront this Congress. But, I am also conscious that behind the many statistics and the rise and fall of economic indicators there lie human lives and individual hopes and tragedies.

The Catholic Church's position is that our nation's economic policy, and the federal budget in particular, must reflect the broad values of social justice

and human rights. Decisions about the federal budget and about the economy are not devoid of moral content. Such decisions ultimately have to do with the fundamental dignity and the basic rights of human persons. They reflect how well the economy is serving human needs and how well the government is serving the common good. I hope that my remarks this morning will help to emphasize and clarify the moral dimensions of these economic and budgetary choices.

IMPACT OF LAST YEAR'S BUDGET CUTS

As the budget was being debated last year, we were assured repeatedly that it would not be balanced on the backs of the needy, that a "safety net" would be maintained, and that the budget cuts would streamline social programs by improving efficiency and eliminating the non-needy. While my own work at Catholic Charities suggests that last year's cuts have not produced a more efficient system, I believe the more important question to be addressed is: What has been the impact on the poor? The news is not good.

Last year, in a letter to Congress, Bishop Thomas Kelly of the United States Catholic Conference wrote the following: "If these budget cuts are enacted, elderly men and women will go unfed, women and children will go without necessary health care and social services, some of the working poor will be forced onto welfare, and families across this nation will go without adequate housing."

Unfortunately, his prediction has been all too accurate. What we have heard from across the country -- from individual bishops, from Catholic Charities agencies, from inner city pastors, from organizers of self-help programs for the poor, from volunteers who are running soup lines, food pantries and emergency shelters -- is essentially the same message: The cuts in entitlement programs have hurt the poor severely. Some people are going without the bare minimum required for a decent standard of living. In many states the full impact of last year's cuts has not yet been felt. It will take until later this spring

and summer for all of the changes to have their complete impact. In many cases, the resources of the states are already pressed to the limits in their ability to cushion the blow of the federal cuts.

The National Conference of Catholic Charities has asked its member agencies and institutions (some 750 around the country) to complete an "Impact Survey" on the effects of the Fiscal Year 1982 budget on their programs and services, on the numbers of clients served and on the numbers of new community service programs initiated. This survey is not yet complete or compiled, but we would be happy to furnish its results to the task force, if you wish. Even now, however, without all the final data, we know a lot about the impact of the budget cuts. We know because the people affected by the budget cuts show up on the doorsteps of thousands of Catholic parishes across the country. They show up at hundreds of Catholic Charities agencies and institutions, and at untold numbers of other Church-sponsored programs for the poor.

Before the National Conference of Catholic Charities finalized its "Impact Survey", we did a phone survey of nine agencies of varying size and in different geographical regions. In each case the level of services is being reduced significantly because of federal and state retrenchment. In only one case has the state moved to make up the difference represented by the federal cuts. In each case Catholic Charities budgets have been reduced -- by amounts ranging from a low of $50,000 in a small agency which had little in the way of purchase of services or direct contracts, to over $1.7 million in a moderately sized agency. All agencies report a large increase in volunteers working in their programs, and also a heavy increase in the number of people coming for emergency assistance, housing, food and a variety of services. Despite the budget cuts, the overall level of activity has increased in these agencies. How long they can sustain such increases is not clear. While it is true that during the past several recessions, Catholic Charities nationwide has gone into

deficit, this situation cannot be sustained forever.

Allow me to cite several examples from individual dioceses that have felt the effects of the budget cuts. Here in the Archdiocese of Washington, requests for emergency financial assistance have doubled and tripled at Catholic Charities offices, and the lines at soup kitchens are longer than ever before. For the first time we are seeing in these lines not only the chronically destitute but many new faces -- for example, the recently unemployed, the working mother who has lost AFDC benefits. At one parish hundreds of people wait in line for a meager sixty cents to help them through one more day. The parishes and volunteers who provide these services say that the demands on their limited resources have been staggering the past year.

In the Archdiocese of Detroit, Archbishop Szoka reports that nearly every Catholic Social Service agency has reported an increase of at least 100% in requests for material assistance. For example, at an emergency food center run by the Capuchin Fathers in the Archdiocese, demand has doubled since last year. Close to 1,000 people are being served there every day.

A few months ago, a priest working in this food center wrote:

> "The poor are legion, and their stories tear at your insides. The number of families seeking help is double what it was last summer. I really get frightened when I think what this coming winter might bring."

One final example from the Archdiocese of St. Paul-Minneapolis. A woman there, knowing of the lack of adequate shelter for the homeless, left a stack of blankets in an unlocked car overnight. The next morning, she found six adults sleeping inside, huddled together against the cold.

I could go on with a long litany of examples, but the message would be the same -- the poor are paying a terrible price as a result of last year's budget cuts.

I have listened carefully to the suggestion that the voluntary sector and the churches in particular can and should take up the slack caused by the budget cuts. For example, in New York recently, Mr. Reagan said: "If every church and synagogue in the United States would average adopting ten poor families . . . we could eliminate all Government welfare in this country, Federal, state and local."

This suggestion, that private charity can increase sufficiently to make key entitlement and social programs unnecessary, ignores both reality and history. Even a preliminary examination of the dollars and resources involved makes it obvious that the voluntary sector cannot replace major government programs.

If we consider only the 35-40 billion dollars in federal cuts that were approved last year, it is clear that the gap cannot be filled either by the churches or by the entire voluntary sector. In fact, for several reasons, the voluntary sector is more hard-pressed now than before the cuts. A preliminary study by the Urban Institute indicated that the cuts will mean an estimated loss of over $27 billion of federal revenue to the voluntary sector over a three-year period. In addition, a similar study by the Urban Institute indicates that the tax cuts that were approved will create a disincentive to give to charitable causes, resulting in a further loss of revenue, despite the passage of the Charitable Contributions legislation last year. And, finally, the increase in demand for services and emergency assistance has been so great since the budget cuts took effect, that they threaten to overwhelm the resources of many human needs programs in the voluntary sector.

I hope we can help to develop a better public understanding of the enormous efforts already being made by churches in response to human needs. In my own diocese of Brooklyn, for example, twenty-five parishes run home care programs for the elderly. Some fifty parishes have facilities for the care and feeding of the elderly, the retarded and the mentally ill. Although not highly visible, these efforts have been and will continue to be an important part of

the Church's work.

In the end, the churches and the voluntary sector as a whole cannot be expected fill the growing gap created by the budget cuts. While the religious community has been and will continue to serve those in need, our efforts should not be viewed as a basis for the government's abdication of its own responsibility. The churches cannot, by their charity, be mufflers of the harsh injustices imposed by an unresponsive government. The return of soup lines and the dramatic increase in the demands for emergency food assistance and financial aid should not be interpreted as signs of success for the New Voluntarism. They are instead sad symbols of a retreat by government from a fundamental responsibility.

ROLE OF GOVERNMENT

This brings me to the core of the message that I would like to leave with you this morning. That message has to do with basic human rights and the role of the government in guaranteeing that these rights are protected. The Catholic Church has a long tradition of social teaching on human rights. I believe it is directly relevant to the subject of entitlements before this task force. Allow me briefly to summarize that teaching.

The dignity of the human person is one of the key elements in all of Catholic social teaching. Made in the image of God, the human person is endowed with a special dignity. This dignity generates obligations, which in turn point to basic human rights. These rights are universal and arise from the very nature of the human person. In his encyclical, Pacem in Terris, Pope John XXIII listed some of these rights:

> " . . . every person has the right to life, to bodily integrity, and to the means which are suitable for the proper development of life; these are primarily food, clothing, shelter, rest, medical care, and finally the necessary social services."

We believe that these rights are a kind of baseline--a set of minimum conditions of material well-being which must be met if human dignity is to be protected. The Catholic Church fully recognizes the significance of classifying these basic necessities as rights. For rights are not matters of privilege or choice. Rights are functions of duties. They imply an obligation on the part of society, and ultimately this responsibility rests on the government. When, through the normal workings of the economy and the social system, the basic material needs of citizens are not met, the government has the responsibility to intervene. It has a duty to protect the fundamental rights of all by seeing to it that no one goes without adequate income, food, shelter, health care, etc. By no means does the Church include all desirable material goods in the category of human rights. On the contrary, we consider as rights only those necessities required for a basic level of human decency--those essentials without which basic human development and human dignity are impossible.

The harsh reality of America's present economic system is that, without substantial and effective government intervention, people will go hungry; families will be homeless; mothers and children will be without basic health care. In theory, one might hope that the government would not have to be the direct provider of these services; in reality, however, given even the best efforts of the private sector, government must bear a large share of the burden. In short, the powers of government must be used in a constructive way, directly as well as indirectly, to guarantee a minimum level of decency for all Americans.

Some have challenged the very notion of entitlements and have said that people are not entitled to any services. Our Catholic tradition, as I have said, implies something quite different. Human dignity generates moral obligations. These in turn undergird true human rights. We believe that all people have a right, an entitlement, to the basic necessities of life. When these basic needs go unmet, the government has the ultimate responsibility to intervene.

Seen from this perspective, the cuts in entitlement programs proposed for Fiscal Year 1983 are intolerable. Particularly in the case of Food Stamps, AFDC, and Medicaid, the cuts constitute a denial of the most basic human needs for thousands of Americans. They are, in this sense, detrimental to human dignity. They represent a partial abandonment of one of the most fundamental roles that government is called to perform.

The enactment of AFDC, Food Stamps, Medicaid, and other entitlement programs, were important national achievements. They represented our progress as a society in recognizing new roles and responsibilities for government. We saw that when mothers and children were dislocated because of economic forces beyond their control, when people were hungry or unemployed through no fault of their own, then it was to the benefit of our society as a whole for the government to provide the basic entitlements. We are a more secure nation, a more humane society, as a result of these government initiatives. Now, in a time of increased economic pressures, there must be no abandonment of the government's responsibility, no retreat from the social progress that has marked our history in the past fifty years.

ADVOCACY FOR THE POOR

Mr. Chairman, many of the items your task force is considering are programs targeted for poor people. When the Catholic Church enters the arena of public debate, we are not neutral. We enter with an explicit and conscious advocacy on behalf of the poor.

Poor people do not have much power. In the tug and pull of the political process they are not likely to win out. They are without powerful political allies and lobbying networks. They do not contribute much to election campaigns, and they do not vote as much as the rest of the population.

As a result, particularly in the budget squeeze, the poor have been the worst victims. In examining the effects of last year's budget cuts and the cuts

proposed for Fiscal Year 1983, I cannot help but recall the words of Pope John Paul II in a speech he gave last year. He said: "The present economic difficulties . . . must not become a pretext for giving in to the temptation to make the poor pay for the solutions to the problems of the rich. . . . "

I am afraid that as a nation we are already giving in to that temptation. The cuts enacted last year in Food Stamps, AFDC, Medicaid, social services, and child welfare services, and the even deeper cuts proposed this year for Fiscal Year 1983, stand in stark contrast to the massive tax breaks for wealthy individuals and corporations. The extreme inequities that already exist are growing at an almost unprecedented rate. To cut taxes for the wealthy and increase military spending to unprecedented levels while at the same time punishing the poor with cuts in entitlement programs, is unfair and unwise. In my view, it is difficult to justify morally. It is contrary to the basic human rights of the poor.

Allow me to offer from our Catholic tradition a principle which I hope and pray will be a moral criterion that will govern the actions of the Budget Committee and the entire Congress in the months ahead. That principle is as follows: The poor have a right to have their minimum needs met before the less basic desires and wants of others are fulfilled. I submit that this moral principle should take precedence over the purely political and economic factors which are inherent in the budget debate. The nation's current economic and budgetary problems are obviously very serious. They will require difficult choices. But these problems can and must be solved without punishing the poor, without violating their rights to basic necessities. In the Christian tradition, how we treat the poor is seen as a measure of our religious faith. I believe it is also a measure of our health as a nation and our wisdom as a people.

CONCLUSION

This is an important moment in the economic and political history of our

land--a moment in which we face some basic choices concerning national economic and social policy. In our view, the budget cuts should be seen in the broader context of this nation's commitment to meeting the basic needs of its citizens. I fear that the radical economic experiment on which the Administration has embarked -- with the support of some members of both parties in the Congress -- and the budget cuts which are a central element of that policy, are more than a mere incident in the political process. I am concerned that there could be a tendency to solve our economic problems at the expense of the poor, the weak, and those who are politically least influential. Such policies threaten to deeply divide our nation, to tear the very fabric of our society, to make us less responsive to human needs.

We in the Catholic Church believe that this trend must be firmly resisted. We were present during the 1930s when the major social programs of our nation were initiated. We supported them, because they helped to guarantee the fundamental dignity of all persons and to meet their essential human needs. Now, when these programs are in jeopardy, we are committed to speaking out in their defense. We join with others in working for the goal of more effective and humane programs, but cutting back or abandoning programs is not the way to reach that goal.

In closing, I wish to emphasize that the debate over entitlement programs, as well as the larger debate over the federal budget, is not simply a debate about numbers and dollars and programs. It is about human beings -- children, parents, the elderly -- their joys and sorrows, their successes and failures, their hopes and dreams. It is about American families -- about whether or not they will have enough food on the table, enough income to support them, enough medical care to guarantee their full physical and mental development. It is, in short, a debate about human dignity.

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STATEMENT OF CAROL BURROUGHS GROSSMAN, NATIONAL PRESIDENT, WOMEN'S EQUITY ACTION LEAGUE

Congressman Stark, members of the Committee, I am Carol Burroughs Grossman and I appear before you representing the views of the Women's Equity Action League, known as WEAL. Founded in 1968, WEAL is a national organization dedicated to securing and protecting equal rights for women. I am testifying before this Committee today in support of H.R. 5904, the "Short-Time Compensation Act of 1982." This legislation, if enacted, would encourage States to provide unemployment benefits to certain partially unemployed workers. WEAL believes if employers affected by temporary declines in business are permitted to administer work-sharing programs as an alternative to laying off workers, the result will yield a more stable labor force, enhance productivity, improve employee morale, and secure the employment rights of those individuals most likely to lose their jobs in times of economic recession and cyclical fluctuation.

WEAL is particularly interested in the passage of this measure because layoffs generally impact the newest, lowest-status employees in an organization. This phenomenon -- the Last Hired, First Fired syndrome --

has become synonymous with the experience of women and minority workers. We commend the Committee for considering this bill which would lead to the development of model state legislation by the Secretary of Labor that may alleviate the disproportionate burden of unemployment placed upon women and minority workers.

The spectre of unemployment is envisioned by all workers at one time or another during their work-lives. All workers fear the loss of income, employer-provided benefits (such as health and retirement), as well as status among peers and within the community. While this apprehension about joblessness may be shared, all classes of workers do not actually experience it on an equal basis. The youngest, the most recently hired, the least-skilled, the lowest-paid and those of retirement age become the most familiar with job loss.

WEAL asserts that the revision of state unemployment compensation rules, allowing partial compensation for workers operating on shortened work schedules, is a positive approach to reducing the hardship of layoffs for these people, a large percentage of whom are women.

Women in the Labor Force

During the last decade the number of women in the labor force increased by 40 percent to 47 million women workers in all segments of the U.S. economy. This represents an 8 percent increase in women's overall labor participation rate. Since 1978 more than one-half of all women aged sixteen and older have worked outside the home.

Unfortunately, on the average, nearly 8 percent of working women were unemployed during 1981 and the outlook for 1982 does not indicate improvement. Statistics for January and February of this year show unemployment rates for women at 8.4% and 8.9% respectively. The situation is significantly worse for younger and minority women -- the unemployment rate for black and other minority women was 15.3% in February! Not included in these unemployment figures are 4 million women who desire employment, but are discouraged from looking for work because of home responsibilities, discriminatory hiring practices based on sex and age, and/or inadequate training.

Why Do Women Work?

The majority of women in the work force are there to provide economic support for themselves, their families, and others. The increase in the number of working women is based on economic survival. Women rarely work for "the little extras", a second car, a condo at the beach, designer clothes, but for the same reasons men work -- to put food on the table and pay the bills. About two-thirds of women in the labor force work to support themselves and their families or to supplement low family incomes. During 1981, 9.3 million families were maintained by women, 61% of these women were working or looking for work. 1.4 million of women who maintained families were unemployed last year with 700,000 having no employed person in the family.

Reasons Why WEAL Supports H.R. 5904

WEAL has considered the potential impacts of H.R. 5904 and believes the concept of worksharing deserves serious consideration. We realize that this legislation may not be the answer for every business considering work force reduction or that its utilization would necessarily guarantee a signficiant reduction in the unemployment situation for women. We strongly believe, however, that it is important to investigate and analyze policies that deal with the problem of employee layoffs and provide employers with an opportunity to choose worksharing programs as an alternative to full severance of employees. Women as well as all workers stand to gain from use of this kind of approach.

We cite the experience of Germany during its last recession as an example of the potential benefits of national acceptance of worksharing programs. In that country the unemployment rate was reduced by one percent while more than 700 thousand workers were allowed to retain their jobs by receiving partial compensation for lost production hours. We also note that the concept of worksharing is not new to the United States. Major union collective bargaining agreements frequently include provisions for worksharing in order to maintain the job security of union members during layoff periods. These worker-approved plans demonstrate the concern of many employees for the well-being of others likely to lose their jobs by their willingness to give up part of their earnings to help save affected workers' jobs. And, we are encouraged by the State of California's experimentation with short-time compensation.

Much discussion and testimony has been provided about the potential uses and abuses of short-time compensation. WEAL believes that the legislation currently being considered before this Committee provides adequate safeguards to prevent misuse of state unemployment insurance trust funds, particularly by the requirements for employer qualification as specified under Section 3 (c).

WEAL is particularly supportive of Section 3 (c)(3) that would prohibit large-scale layoffs prior to implementation of worksharing plans, subsection (5) that would secure the continuation of health and retirement benefits to employees whose workweeks are reduced, and, of course, the provisions under Section 3 (a)(4) that provide for unemployment compensation on a pro rata basis.

There exists a strong correlation between layoffs and women's unemployment, especially in manufacturing. During 1981, 3.6 of every 100 workers were separated from their jobs in the industrial sector of the economy. Forty-four percent of those leaving jobs were laid off. Although data covering labor turnovers is not reported directly by sex, one need only compare unemployment rates for men and women to observe that in 1981 women were losing jobs at a greater rate than men in every one of the nation's major manufacturing industries. (See Table 2 following text.) Therefore, the utilization of worksharing combined with restrictions on participating companies' layoff activities can only help women in this economic environment.

Layoffs also cause significant problems associated with vesting requirements for pension programs. This is of particular importance to women because under "normal" conditions women are less likely than men to attain vested status. Any interruption of employment negates

gains in tenure which are critical to qualifying for pension benefits. In addition, the absence of health benefits creates obvious problems for laid off workers given their reduced economic well-being. As a result, a reduction in layoffs combined with the maintenance of health and retirement benefits would improve the status of working women who are covered by these plans.

In situations where worksharing programs are instituted each participating worker would receive a pro rated portion of unemployment compensation which would be payable if the individual were totally unemployed. This payment is crucial to employees on the low end of the pay scale since they are the group most affected by pay reduction caused by reduced workweeks. Early results in California show that workers in lower income categories, which included a disporportionate number of women, minorities and the young, experienced a higher replacement rate on their incomes as compared with higher paid employees. Since full-time women workers on the average earn only about three-fifths of their male counterparts, the maintenance of full-time salaries or a close approximation is important for women and others with low wages that participate in worksharing programs.

Affirmative Action and Occupational Segregation

As indicated earlier, the participation of women in the labor force has been steadily increasing over recent years. By 1990 the participation rate for women is projected to reach 57 percent, assuming moderate growth in the economy. As this increase occurs it is hoped

that women will be allowed access to more "nontraditional" occupations and industrial settings as employers expand their labor force and women continue to seek better and higher-paying jobs. Minimal gains have been achieved in this direction as the result of affirmative action programs instituted during the 1970's. These programs were developed to address the single most important problem continuing to face most women in the labor force. That problem is occupational segregation and its companion, low earnings. This obstacle has denied the rights of many women to participate in various sectors and job categories in the U.S. on an equal basis and with equal compensation.

Given a chance, women who have been allowed access to more diverse occupational areas continue to demonstrate that they can perform well in jobs usually held by men such as the skilled trades in construction, truck driving, telephone repairing, etc. Unfortunately, women continue to remain largely employed in the same jobs and industries where they have generally found employment in the past. In 1981, more than one out of every three working women was a clerical worker and one out of five a service worker. Less than 8 percent of all working women were employed as managers or administrators. (See Table 3 for additional detail.)

An interim evaluation on California's Work Sharing Unemployment Compensation Insurance Program, as reported by the California Employment Development Department in 1981, indicated that small manufacturers were more likely to utilize short-time compensation than service and wholesale and retail trade businesses which continued to use regular unemployment compensation. Therefore, it is not surprising that these findings showed a lower proportion of women workers using work sharing compared

with those fully unemployed with regular unemployment insurance.

These preliminary results in California should not be interpreted to mean, however, that worksharing programs will not benefit a greater proportion of women workers in the long run. Given greater attention at the Federal level by enactment of the legislation proposed before this Committee today, short-time compensation may become a more widely used method by all types of businesses as individual states feel encouraged to adopt their own plans.

Women in Manufacturing

An immediate concern of WEAL is related to the protection of the jobs of over 6 million women who work in industries most affected by recession-induced layoffs. In 1981, women employed in manufacturing establishments experienced a 10.6% unemployment rate, the highest level of unemployment for women when compared with other major employer groups (excluding construction) in the private sector. The current downturn in the economy hurts not only women workers who have recently entered nontraditional production jobs and skilled trades (and thus reduces gains made as a result of affirmative action), but also the millions of women who have historically constituted a major proportion of the labor force in industries such as apparel manufacture. In the apparel industry, unemployment rates for women in 1981 averaged over 12% and layoff rates for all workers averaged 2.1%. The majority of women in manufacturing positions continue to hold the lowest status and lowest paying jobs and as a result are more likely to experience layoffs as production needs decline.

Conclusion

WEAL appreciates the serious consideration given by this Committee to the "Short-Time Compensation Act of 1982" which would create a three-year experiment allowing all states to participate in the conduct of worksharing programs. WEAL believes that enactment of H.R. 5904 would help ease the disproportionate impact borne by working women who experience unemployment that results from recession and cyclical movements in the economy.

Table 1. Women on Nonagricultural Payrolls, 1981 Averages

Industry	Thousands of Women	Distribution of Women Among Industries (%)	Women as % of Total Workers	Women's Unemployment Rates (%)
Total	39,196	100.0	42.8[1]	7.9
Private Sector	31,491	80.3	NA	7.7
Mining	125	0.3	15.2	4.2
Construction	398	1.0	8.2	11.1
Manufacturing	6,374	16.3	31.7	10.6
Durable goods	3,054	7.8	25.6	10.2
Nondurable goods	3,320	8.5	41.0	11.1
Transportation and public utilities	1,337	3.4	26.5	3.9
Wholesale and retail trade	9,127	23.3	46.9	9.0
Finance, insurance and real estate	3,171	8.1	58.5	3.8
Services	10,960	28.0	60.9	6.5
Government	7,750	19.7	NA	NA

(1) Includes women on agricultural payrolls.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, March 1982, Tables B-3, 30, and 12.

Table 2. Comparison of Unemployment Levels for Women and Men and Labor Turnover Rates, 1981 Averages

Industry	Thousands of Women	Unemployment Rates (%) Women	Men	Labor Turnovers (1) (per 100 workers) Separations	Layoffs
All manufacturing	6,374	10.6	7.1	3.6	1.6
Durable goods	3,054	10.2	7.4	3.4	1.6
Lumber & wood products	104	16.2	12.0	5.7	2.7
Furniture & fixtures	144	11.7	7.3	4.1	1.4
Stone, clay & glass products	128	10.7	8.0	4.1	2.2
Primary metals	124	10.3	8.3	3.4	2.1
Fabricated metals	335	11.9	8.9	3.8	1.9
Machinery, except electrical	509	7.7	5.3	2.6	1.0
Electric & electronic equipment	910	9.5	4.6	2.9	1.1
Transportation equipment	302	12.4	10.0	3.6	2.0
instruments & related products	305	7.3	3.5	2.3	0.6
Miscellaneous manufacturing	193	12.4	6.9	4.9	2.2
Nondurable goods	3,320	11.1	6.5	4.0	1.6
Food & kindred products	501	15.0	7.9	5.8	2.9
Tobacco manufactures	26	NA	NA	3.9	2.4
Textile mill products	397	11.1	10.0	3.7	1.1
Apparel & other textiles	1,013	12.1	9.1	5.4	2.1
Paper & allied products	161	9.9	3.9	2.7	1.1
Printing & publishing	514	6.5	4.6	3.0	0.7
Chemicals & allied products	283	7.8	4.0	1.7	0.5
Petroleum & coal products	30	NA	NA	2.2	0.8
Rubber & miscellaneous plastics	257	14.1	9.0	4.0	1.5
Leather & leather products	139	NA	NA	6.2	2.5

(1) Data cover all workers -- women and men; layoffs are subcategory of separations.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, March 1982, Tables B-3, 12, and D-2.

Table 3. Women's Occupational Status in the Labor Force and Selected Industries, 1981 Averages

Occupation	All Industries		Distribution of Women (%)			
	Distribution of Women (%)	Women as Percent of Total Workers	Manufacturing Durable	Manufacturing Nondurable	Retail Trade	Services Except Private Households
Number (thousands) (1)	43,000	---	3,368	3,543	8,583	16,830
Total	100.0	42.8	100.0	100.0	100.0	100.0
White-collar workers	65.9	53.5	44.1	36.0	65.9	69.6
Professional & technical	17.0	44.6	7.8	6.4	1.3	35.5
Managers & administrators	7.4	27.5	3.8	3.6	12.3	5.1
Sales	6.8	45.4	0.9	2.9	24.1	0.6
Clerical	34.7	80.5	31.6	23.1	28.2	28.4
Blue-collar workers	13.6	18.6	54.6	62.8	6.9	3.4
Craft & kindred	1.9	6.3	5.6	5.4	2.0	0.7
Operatives, except transport	9.7	39.8	46.6	54.6	2.4	2.2
Transport operatives	0.7	8.9	0.4	0.5	0.4	0.2
Nonfarm labor	1.2	11.5	2.0	2.3	2.1	0.3
Service workers	19.4	62.1	1.3	1.1	27.3	27.1
Private household	2.3	96.5	---	---	---	27.1
Other	17.1	59.2	1.3	1.1	17.3	---

(1) Employment figures do not correspond with Tables 1 and 2 because they are based on different statistical series.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment & Earnings, March 1982, Tables 22, 23, and 27.